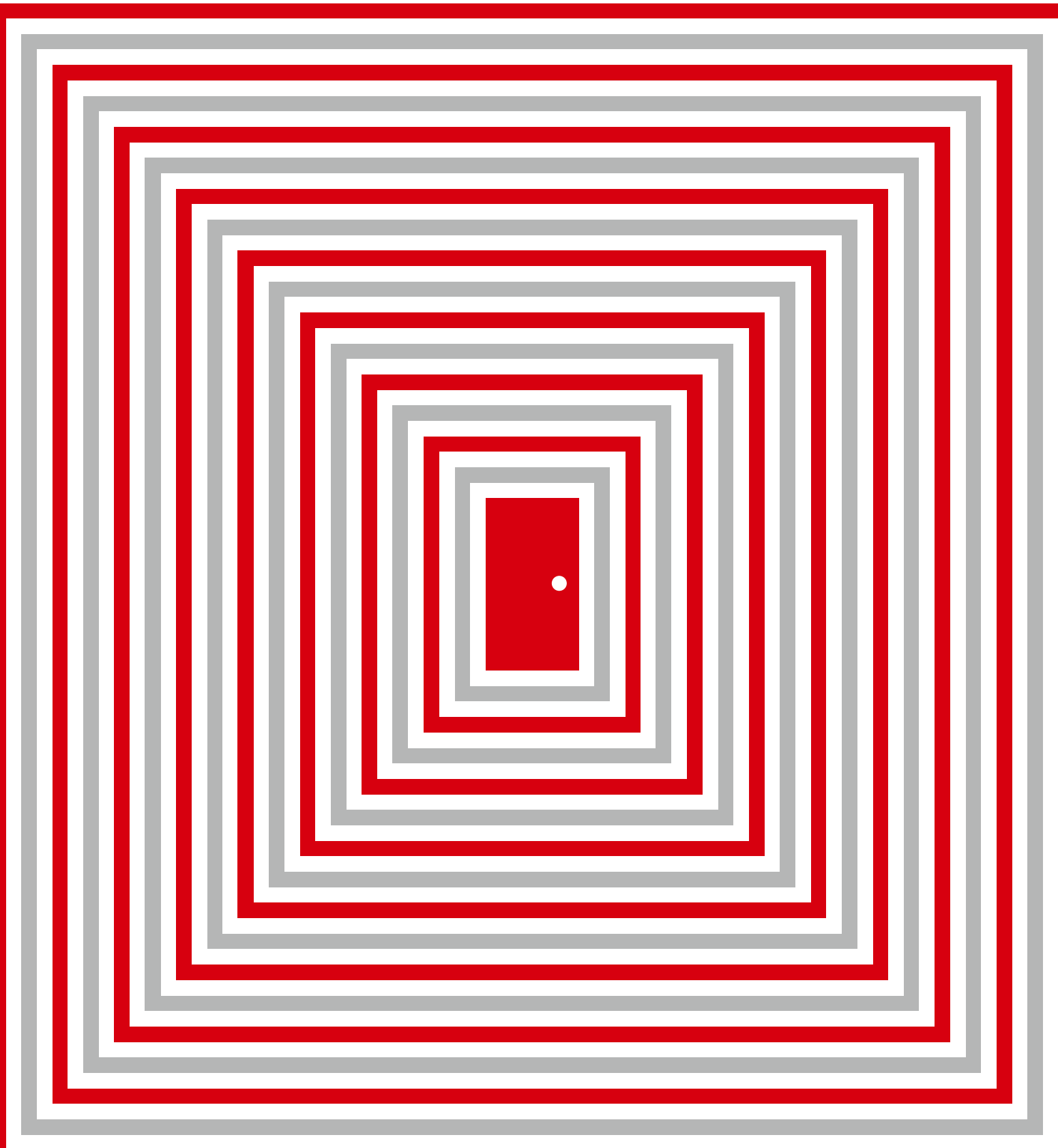


2017

White Paper on Small Enterprises in Japan
Conveying the Buds of Growth to the Next Generation

National Association of Trade Promotion for Small and Medium Enterprises



Outline of the 2017 White Paper on Small Enterprises in Japan

Part I of this report analyzes recent trends in small enterprises, and examines the life cycle and productivity of SMEs and micro-businesses and the employment environment and labor shortage situation they face.

Based on the information presented in Part I, Part II focuses on the life cycle of SMEs and Small Enterprises and the human resources that support them, and analyzes their startup, business succession, and initiatives for sales expansion.

Part I Developments among small enterprises in fiscal 2016

● Current state of small enterprises

The Japanese economy is continuing to improve, and the environment surrounding SMEs and small enterprises is also showing a trend toward improvement.

However, the degree of improvement varies according to enterprise size and organizational structure, and various issues also exist, such as the sluggish growth of capital investment and sales. Furthermore, there still remains a disparity in the transaction environment between medium and small enterprises. At the same time, however, there is also a certain ratio of individual enterprises that have become incorporated, as well as enterprises that plan to become incorporated. The latter are particularly growth-oriented, and have a strong desire to expand their business.

● The life cycle and productivity of SMEs and micro-businesses

The number of enterprises in Japan is declining, but while the number of small enterprises marked a significant decline from 2009 to 2014, the number of medium enterprises increased over the same period.

Trends in the components of the life cycle of enterprises, including market entries and exits, are imposing a large impact on the overall productivity of SMEs and small enterprises in Japan. Entries have boosted the productivity of SMEs and small enterprises as a whole, but the upward effect has shrunk in recent years, in part due to market exits by high-productivity enterprises, which have pushed down overall productivity.

● The employment environment and labor shortage in SMEs and micro-businesses

Amid an improving employment environment in Japan, the unemployment we see today could be said to be a structural unemployment caused by mismatches. For example, underlying this structural unemployment is a mismatch in occupations for which enterprises seek applicants and occupations that are sought by job seekers. Under this situation, SMEs and small enterprises that offer attractive jobs and flexible working styles are being chosen as a place of employment.

Part II The life cycle of micro businesses

● New business startup/establishment

Entrepreneurial hopefuls and people making startup preparations face different concerns according to gender, age, and other such attributes, but even those who have become entrepreneurs had not been able to receive the startup support they needed, in many cases. After startup, entrepreneurs continue to face various issues at each stage of growth of their business. For smooth business startup, entrepreneurial hopefuls and people making startup preparations need to acquire information on the support they require to resolve their respective issues, and to utilize those support schemes to their benefit. After business startup, it is also important for enterprises to utilize support measures as appropriate to each growth stage.

● **Business succession**

In order for a company president to begin preparing for business succession, approaches need to be made by people around the president. Prompted by such approaches, the president could then develop an awareness of business succession at an early stage, and seek the optimal method of handing down the business in consultation with people and institutions in an advisory capacity, such as advising certified public accountants/tax accountants, financial institutions, and societies or chambers of commerce and industry.

Business transfers, sale and integration (M&A) are important options to enterprises that do not have a candidate successor but wish to continue their business. With regard to M&A schemes, various issues need to be addressed, but measures and preparations have yet to make progress. It is important to business presidents that their advisors grasp latent needs and develop a support framework that can address diverse issues, in cooperation with M&A specialists.

Even among micro businesses, those that are corporate entities and those that are individual businesses face different issues, and business presidents who choose to close their business are especially conspicuous among individual businesses. When closing their business, some presidents wish to transfer the operations and assets of their company to another company. In such cases, it is important to create a cycle in which the management resources of such enterprises are inherited by the next generation.

● **Initiatives for expanding sales**

Small enterprises are important presences that support local economies, and are active in diverse business spheres and industries. They face challenges in cultivating markets and acquiring personnel due to their limited management resources, but there are those that are expanding their sales by developing new markets and new products while ascertaining customer needs and their own strengths and launching PR activities.

SMEs as a whole also face a large difficulty in acquiring personnel, but small enterprises are succeeding in retaining employees by creating workplace environments where women and elderly people can also play an active role, and by embracing flexible working styles. Small enterprises that utilize such diverse personnel also make efforts to achieve greater operational efficiency, and are thus realizing expanded sales. Moreover, by looking beyond their internal management resources and effectively utilizing external management resources through outsourcing schemes, there are also enterprises that are successfully pursuing their management policy even amid a shortage of workers.

It is important for small enterprises to leverage their flexibility to utilize diverse personnel, clarify their management policy, and maximize their strengths, in their effort to achieve sustainable development and further growth.

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Part II Micro business life cycle

Chapter 1 New business startup/establishment

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Case 2-1-2 Atelier DEMETAN	Honjo City, Saitama Prefecture	An example of a business started using local traditional crafts, prompted by study at a business start-up school	145
Case 2-1-3 Iga Pizza	Iga City, Mie Prefecture	A company that is addressing regional problems using regional resources	146
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Case 2-1-5 Sen Co., Ltd.	Akita City, Akita Prefecture	A company that used a variety of methods of procuring funds to create a source of regional appeal	196
Case 2-1-6 Little Pianist	Ryugasaki City, Ibaraki Prefecture	A company that developed the world's first shoes designed specifically for piano playing, and which is steadily expanding its performance via effective means of cultivating sales channels	205

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Chapter 3 Initiatives to increase sales

Name of enterprise, etc.	Location	Case	Page
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Case 2-3-7 Mikawa Genki Monogatari Co., Ltd.	Shinshiro City, Aichi Prefecture	A company that succeeded in communicating the appeal of its local region from an outsider's perspective to an overseas audience and stimulating demand from overseas tourists by taking on an overseas intern	340
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Introductory notes

1. In this report, the term “small and medium enterprises (SMEs)” refers to small and medium enterprises as defined under Article 2, Paragraph 1 of the Small and Medium-sized Enterprise Basic Act, and the term “small enterprises” refers to “small enterprises” as defined under Article 2, Paragraph 5 of said act. In addition, “medium enterprises” refers to SMEs other than small enterprises. (More specifically, SMEs and small enterprises may roughly be categorized as follows.)

Industry	SMEs (meet one or more of the following conditions)		Small enterprises included among SMEs at left
	Capital	Number of regular employees	Number of regular employees
1) Manufacturing, construction, transport, other industries (excluding 2)-4))*	Up to ¥300 million	Up to 300	Up to 20
2) Wholesale	Up to ¥100 million	Up to 100	Up to 5
3) Services*	Up to ¥50 million	Up to 100	Up to 5
4) Retail	Up to ¥50 million	Up to 50	Up to 5

* The following industries are separately stipulated as shown below, based on government ordinance related to SME legislation.
[SMEs]

1) Manufacturing

- Rubber product manufacturing industry: Up to ¥300 million in capital or up to 900 regular employees

3) Services

- Software industry & information service industry: Up to ¥300 million in capital or up to 300 regular employees
- Hotel industry: Up to ¥50 million in capital or up to 200 regular employees

[Small enterprises]

3) Services

- Accommodations industry & amusement industry: Up to 20 regular employees

2. This report draws largely on recompiled statistical data published by the Japanese Government and the results of surveys conducted by various private-sector entities. Sources, methods of calculation and other relevant information are specified where data are cited, but notes specific to each data source are summarized below. The phrase “Recompiled from” that is used in this paper indicates that the results shown have been independently calculated by the Small and Medium Enterprise Agency using questionnaire data obtained from various statistical surveys.

(1) Ministry of Economy, Trade and Industry (METI), *Census of Manufactures*

This survey provides statistics on numbers of business establishments. Surveys of all business establishments are conducted in years ending in 0, 3, 5 and 8 (up to the FY2008 survey), and surveys of business establishments and similar entities with no less than four workers are conducted in all other years.

In this report, business establishment data for each year are consolidated for analysis. It should be noted, however, that if a business establishment has three workers one year and four the next, it is treated as a new entry. (Conversely,

a business establishment that goes from having four workers is treated as having exited.)

(2) METI, *Census of Commerce*

This survey provides statistics on numbers of business establishments.

(3) METI, *Basic Survey of Japanese Business Structure and Activities*

This survey covers only incorporated businesses with 50 or more workers and a capital or investment of at least ¥30 million. Thus, the results do not include small enterprises. Note that the formal name of the survey is “Ministry of Economy, Trade and Industry’s Basic Survey of Japanese Business Structure and Activities,” but it shall herein be referred to as “Basic Survey of Japanese Business Structure and Activities.”

(4) Ministry of Finance (MOF), *Financial Statements Statistics of Corporations by Industry, Annually* and *Financial Statements Statistics of Corporations by Industry, Quarterly*

As these statistics focus exclusively on incorporated businesses, they do not reveal overall trends among small enterprises. In consideration of sample sizes and response rates, moreover, the results concerning small enterprises need to be viewed with some latitude. It should also be noted that the quarterly version does not include corporations with a capital of less than ¥10 million.

(5) Ministry of Internal Affairs and Communications (MIC), *Establishment and Enterprise Census*, *Economic Census for Business Frame* and MIC/METI, *Economic Census for Business Activity*

This census provides statistics on both business establishments and enterprises. In this report, enterprise-based analyses using these statistics also include sole proprietorships. However, the size of sole proprietorships is determined based on the number of workers at their head office or principal place of business only, as name gathering is unfeasible. Additionally, the *Economic Census for Business Frame* and the *Economic Census for Business Activity* cover the same survey subjects as the *Establishment and Enterprise Census*, but differ from it in that they (1) capture a greater range of business establishments and enterprises by using commercial and corporate registers and other administration records, and (2) adopt a method of surveying enterprises and establishments en bloc by having head offices report information on their branches and other operations. It should thus be noted that numerical differences compared to the results of the *Establishment and Enterprise Census* do not all indicate increases or decreases.

3. This report contains analyses based on questionnaire surveys on SMEs and micro-businesses and other respondents conducted by various private-sector organizations commissioned by the Small and Medium Enterprise Agency (SME Agency). It should be noted, however, that not all enterprises surveyed have responded to these questionnaires.
4. The indicators for SMEs and micro-businesses vary more widely than those for large enterprises. Thus, when examining statistics on SMEs and micro-businesses, it should be noted that the mean values may not necessarily represent the standard state of SMEs and micro-businesses.
5. The map of Japan shown in this report does not necessarily represent the entire territory of Japan.

Part I



Developments among small enterprises in fiscal 2016

Chapter 1

Current state of small enterprises

1. Business conditions of small enterprises

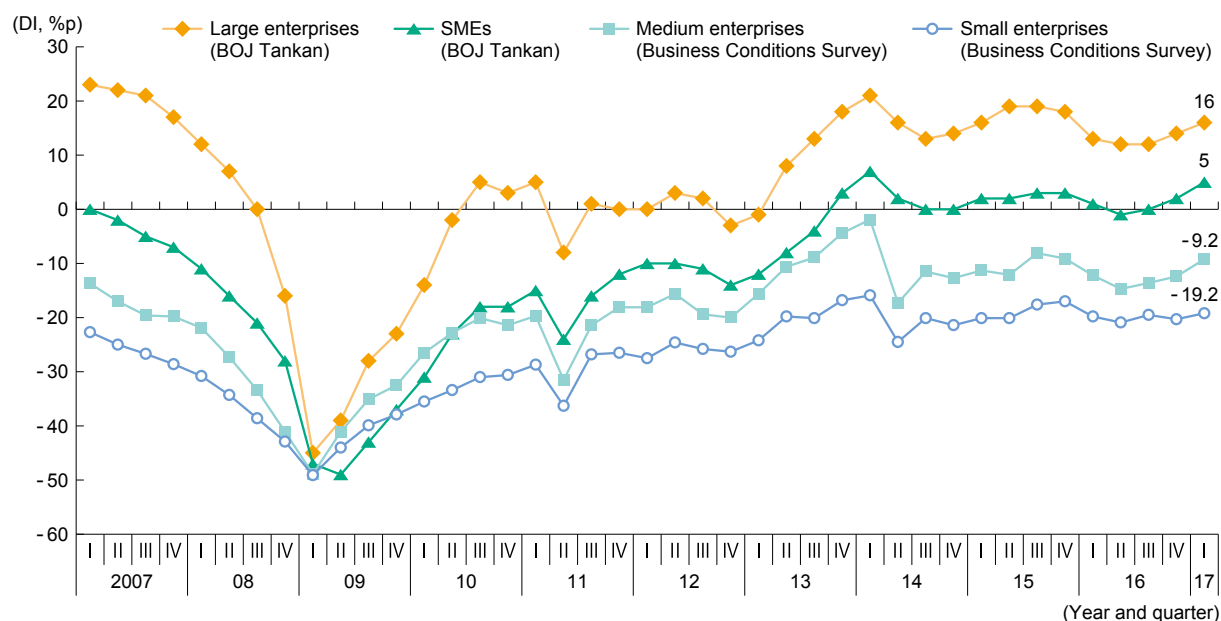
First let us examine the business conditions of SMEs and small enterprises. To verify the business conditions of enterprises by enterprise size, we shall use the BOJ Tankan and the *Survey on SME Business Conditions* (hereinafter, Business Conditions Survey) conducted by the SME Agency and SMRJ, and divide SMEs into medium enterprises and small enterprises. As 80% of the enterprises surveyed in the Business Conditions Survey are small enterprises, it can assess small enterprise trends that cannot be grasped by the BOJ Tankan¹⁾.

The business conditions DI of SMEs according to the BOJ Tankan, and the business conditions of medium and small enterprises according to the Business Conditions Survey differ in their index level due to differences in enterprise size, but after largely fluctuating accompanying

the consumption tax increase in April 2014, it showed a gradual rise up to the fourth quarter of 2015 (Fig. 1-1-1). After entering 2016, it dropped for two consecutive quarters due to the impacts of the Kumamoto Earthquake of April 2016 and other factors, but picked up thereafter, such that both surveys marked a rise in the first quarter of 2017 as an indication of a recovery trend.

A comparison of small enterprises with medium enterprises reveals a consistently higher business conditions DI among medium enterprises. At the same time, however, the business conditions DI of small enterprises are trending at a higher level than before the Lehman crisis, and could be said to be marking a gradual improvement.

1) The BOJ Tankan also includes large enterprises under the scope of its survey, and can be used to compare the trends of large enterprises and SMEs, but at the same time, it focuses only on enterprises with a capital of ¥20 million or more and relatively large-scale SMEs. On the other hand, the Business Conditions Survey does not include large enterprises, but some 80% of the enterprises surveyed are small enterprises.

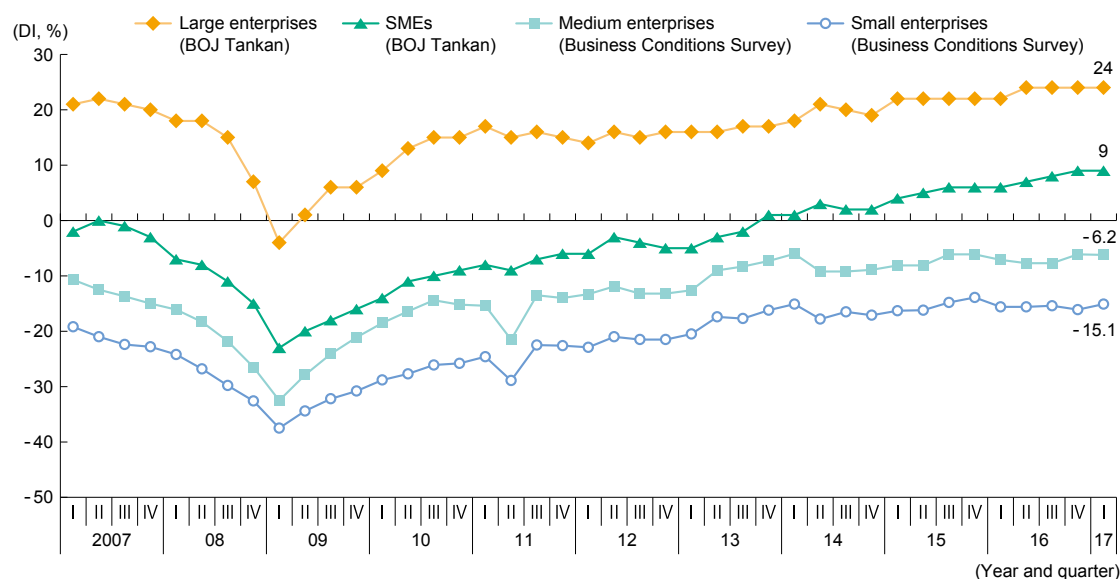
Fig. 1-1-1 Business Conditions DI by enterprise size

Sources: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan); SME Agency and SMRJ, *Survey on SME Business Conditions*.

- Notes:
1. The business conditions DI of the BOJ Tankan is calculated as the percentage (%) of companies that described recent business conditions as "good," minus the percentage (%) of companies that described them as "poor."
 2. The business conditions DI of *Survey on SME Business Conditions* is calculated as the percentage (%) of companies that described business conditions as "favorable," minus the percentage (%) of companies that described them as "unfavorable" compared to the previous quarter.
 3. In BOJ Tankan, large enterprises refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥20 million or more and less than ¥100 million.

Next, let us examine the financial status of SMEs. When we look at the financial position DI according to the BOJ Tankan and the Business Conditions Survey as we did with business conditions, both surveys show a steady improvement after the Lehman crisis, surpassing the level before the crisis in 2007 (Fig. 1-1-2). In the BOJ Tankan, the financial status of SMEs marked a 9-point increase and the highest level in 26 years since the 1990 bubble economy period. This improvement comes on the back of improved corporate earnings and a more flexible lending attitude among financial institutions.

When turning our focus on small enterprises, we see that the financial position DI of small enterprises has surpassed the level before the Lehman crisis, and is improving. However, there is not only a difference in index level compared to medium enterprises, but also a difference in the degree of improvement from the first quarter of 2009, where medium enterprises marked a 26.3-point improvement but small enterprises a 22.4-point improvement, indicating that the financial status of small enterprises has not improved as much as medium enterprises.

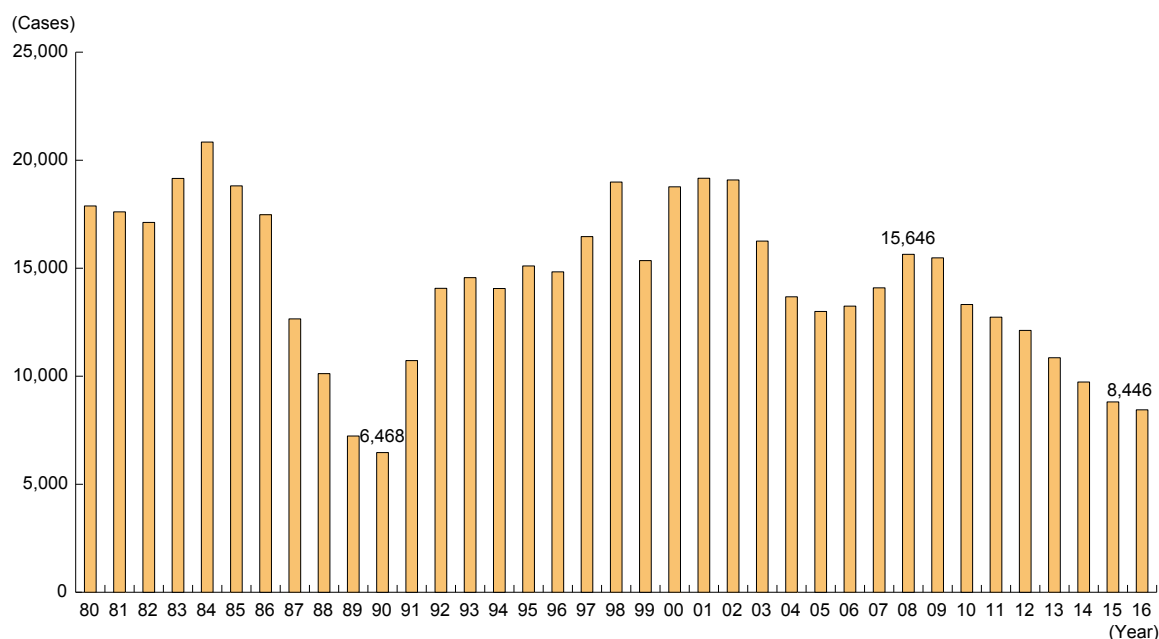
Fig. 1-1-2 Financial position DI by enterprise size

Sources: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan); SME Agency and SMRJ, *Survey on SME Business Conditions*.

- Notes:
1. The financial position DI of the BOJ Tankan is calculated as the percentage (%) of enterprises that said their financial position is "favorable," minus the percentage of those that said it is "unfavorable."
 2. The financial position DI of *Survey on SME Business Conditions* is calculated by subtracting the percentage (%) of enterprises that said their financial position has "worsened" from the percentage (%) of enterprises that said it has "improved" compared to the previous quarter.
 3. In BOJ Tankan, large enterprises refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥20 million or more and less than ¥100 million.

In relation to financial status, let us take a look at the number of corporate bankruptcies. In 2016, there were 8,446 cases of bankruptcies, dropping below the 10,000

mark for the third consecutive year following 2014 and 2015 and marking the lowest level in 26 years since the 1990 bubble economy period (Fig. 1-1-3 (1)).

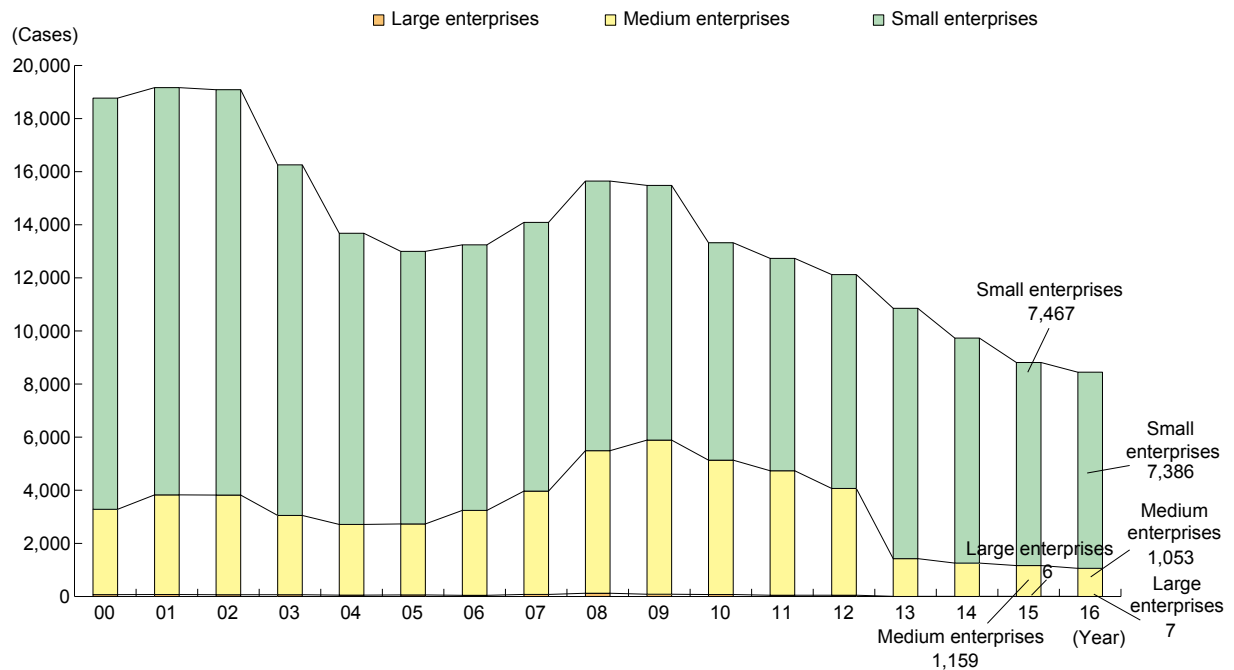
Fig. 1-1-3 (1) Number of bankruptcies

Source: Tokyo Shoko Research, Ltd., *Business Failure News (Monthly)*.

The breakdown of the number of bankruptcies in 2016 by enterprise size was such that there were 7 cases of bankruptcies among large enterprises (up 16.7% from the previous year), 1,053 cases among medium enterprises (down 9.1% from the previous year), and

7,386 cases among small enterprises (down 3.4% from the previous year). A particularly significant decrease in the number of bankruptcies was seen among medium enterprises, followed by a steady decrease also among small enterprises (Fig. 1-1-3 (2)).

Fig. 1-1-3 (2) Number of bankruptcies by enterprise size

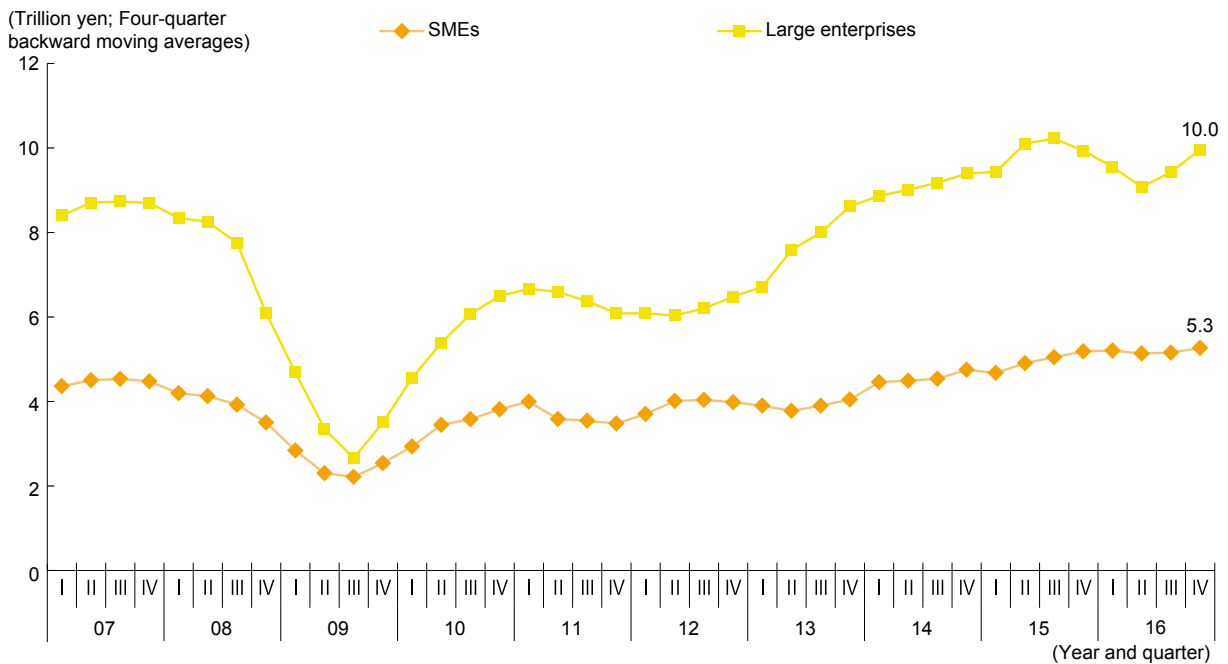


Source: Tokyo Shoko Research, Ltd., *Business Failure News (Monthly)*.

Note: The figures for number of bankruptcies by enterprise size represent figures for after 2000 only.

Next, when we look at the ordinary profits of large enterprises and SMEs, we see that ordinary profits in 2016 surpassed the record high level achieved in

2015 and continued to trend at the highest level ever (Fig. 1-1-4).

Fig. 1-1-4 Ordinary profits by enterprise size

Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

While operating profits maintained a high level, sales tended to level off among both large enterprises and SMEs

(Fig. 1-1-5).

Fig. 1-1-5 Sales by enterprise size

Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

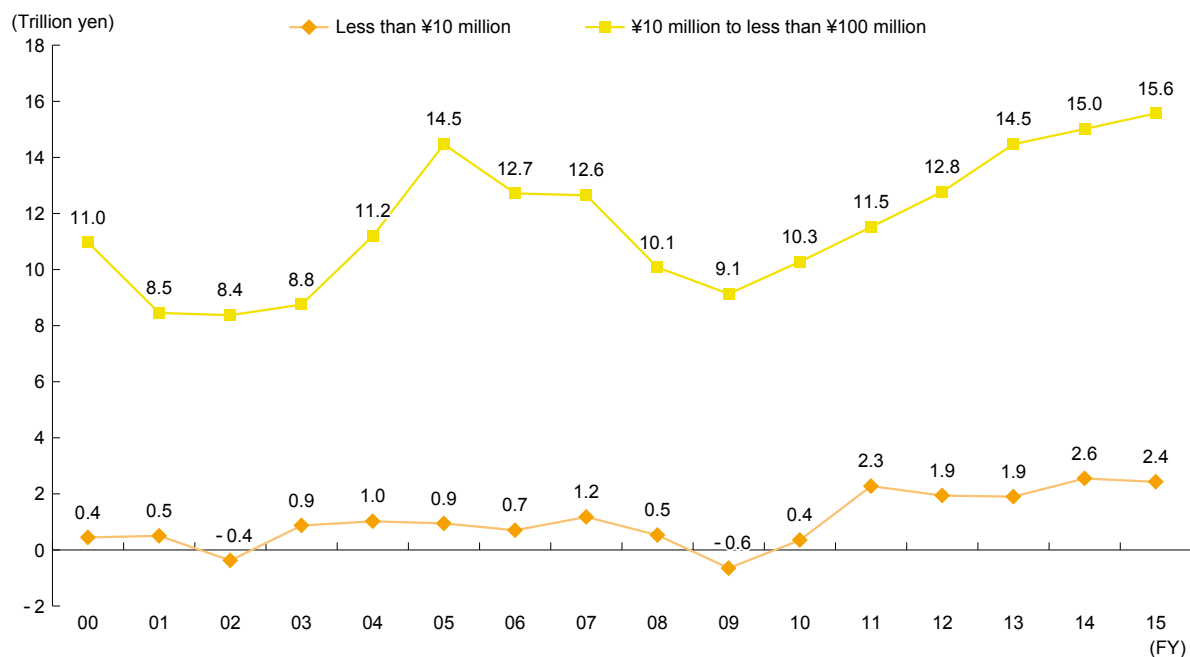
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

As we have seen thus far, the business conditions and financial status of SMEs showed an improvement, the number of bankruptcies declined, and operating profits remained high. Judging by these factors, the situation surrounding SMEs as a whole could be said to be improving. At the same time, however, the degree of improvement among small enterprises is smaller compared to medium enterprises, despite the improvement trend, suggesting that many enterprises are still facing difficult circumstances.

The abovementioned revenue trends such as of ordinary profits and sales do not include small enterprises with a capital of less than ¥10 million, so let us examine

the ordinary profits of these enterprises using MOF's *Financial Statements Statistics of Corporations by Industry, Annually*. Fig. 1-1-6 shows that the ordinary profits of enterprises with a capital of more than ¥10 million and less than ¥100 million have increased for eight consecutive years, and reached a record high in fiscal 2015. Furthermore, enterprises with a capital of less than ¥10 million have gone into the black since fiscal 2010, and has continued to surpass the level before the Lehman crisis since fiscal 2011.

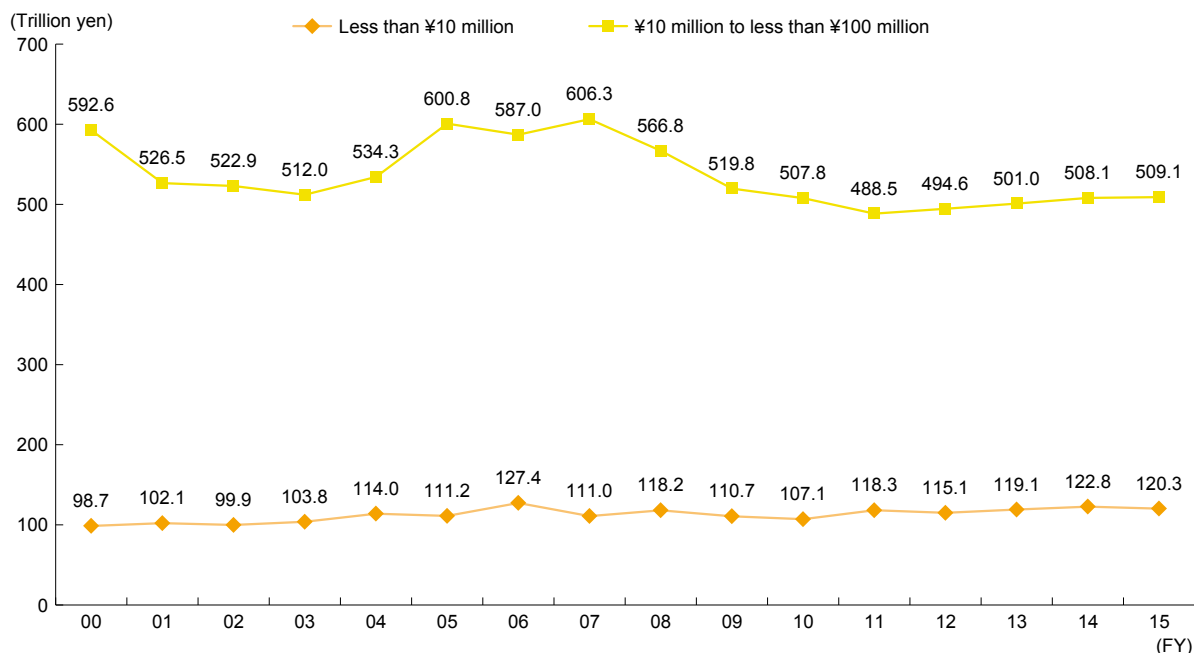
Fig. 1-1-6 Ordinary profits of SMEs and small enterprises



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Additionally, when we examine the sales of small-scale enterprises, we see that there has been little change in recent years among both enterprises with a capital of more than ¥10 million and less than ¥100 million and

enterprises with a capital of less than ¥10 million, and that their sales still fall short of their level in fiscal 2006 before the Lehman crisis (Fig. 1-1-7).

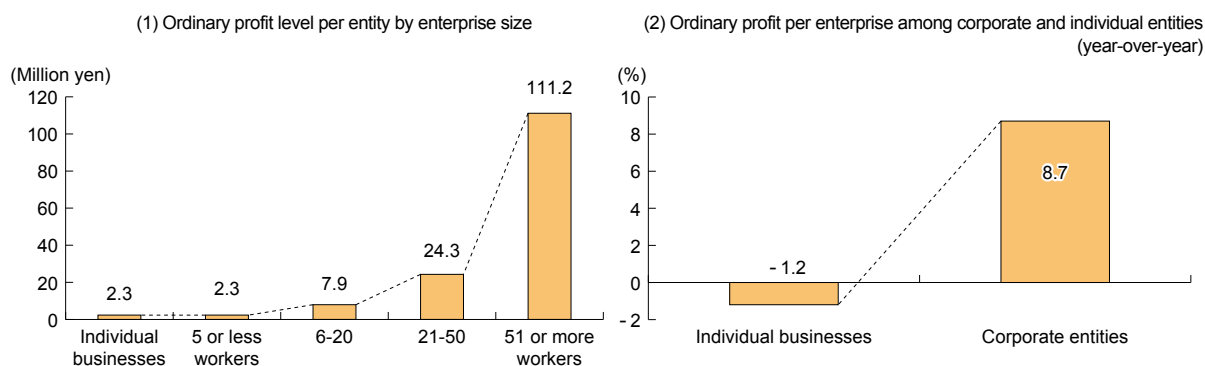
Fig. 1-1-7 Sales of SMEs and micro-businesses

Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Above, we examined the revenue trends of small enterprises using the *Financial Statements Statistics of Corporations by Industry*. However, this source presents statistics of corporations, and does not include individual businesses that account for roughly 60% of small enterprises, within the scope of its survey. Therefore, let us compare the ordinary profits of individual and corporate SMEs and micro-businesses using the Small and Medium Enterprise Agency's *Basic Survey on Small and Medium Enterprises*, which assesses the trends of SMEs and small

enterprises, including individual businesses.

First, when we examine the ordinary profit level of each business, we see that individual businesses hover at roughly the same level as small enterprises that have five or less workers. However, compared to the previous year, the ordinary profit level of individual businesses has fallen by 1.2% while corporate entities as a whole marked an 8.7% increase, indicating that individual businesses face a stricter situation (Fig. 1-1-8).

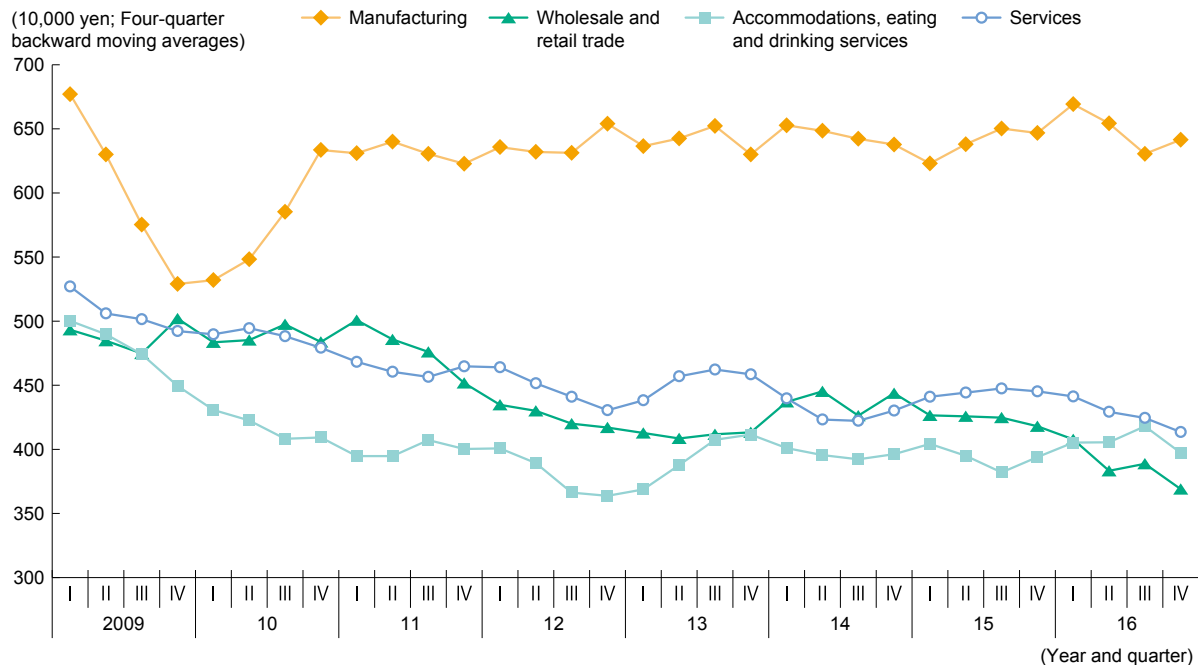
Fig. 1-1-8 Ordinary profits among corporate and individual entities (FY2014)

Source: SME Agency, *Basic Survey on Small and Medium Enterprises*.

When we study in detail the trends of individual businesses in reference to MIC's *Unincorporated Enterprise Survey*, we see that the operating profit of each

individual business is stagnating in all industries (Fig. 1-1-9).

Fig. 1-1-9 Operating profit per business (individual businesses)

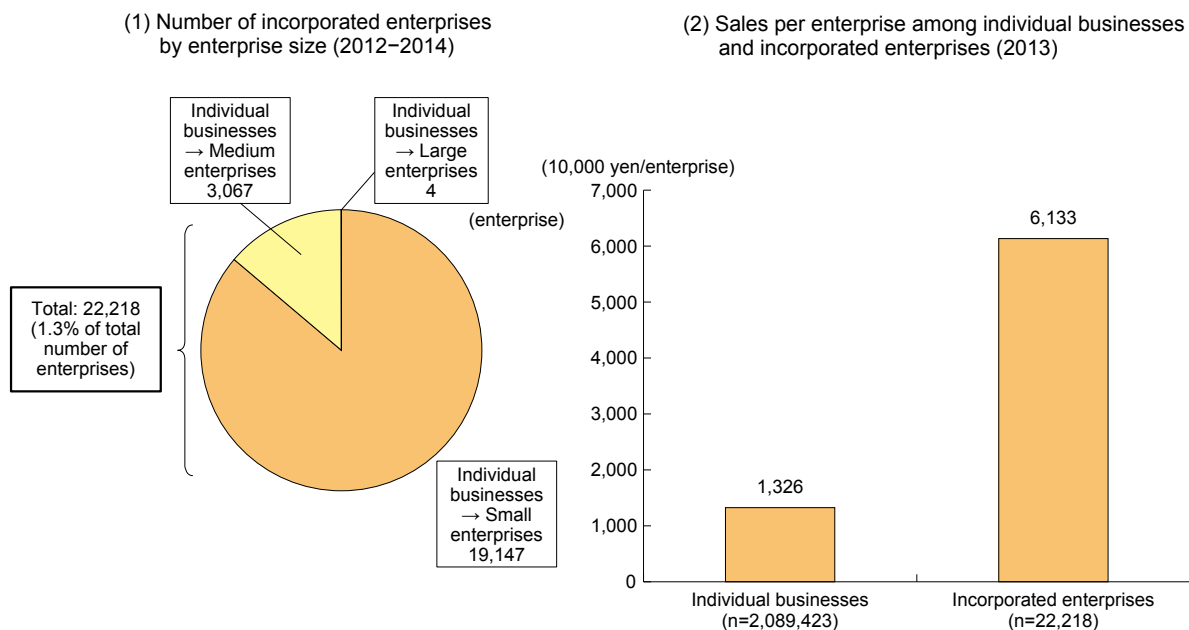


Source: Based on MIC, *Unincorporated Enterprise Survey* results.

As discussed above, even among small enterprises, there tends to be a difference in profits between small enterprises that are corporate entities and small enterprises that are individual businesses. Next, we shall analyze the trends of individual businesses that have become newly incorporated.

First, approximately 22,000 individual businesses, corresponding to 1.3% of all corporate entities, became incorporated over the 29 months from February 2012 to July 2014, and more than 85% became small enterprises (Fig. 1-1-10).

To examine the characteristics of newly incorporated enterprises, the amount of sales per enterprise was examined in comparison with enterprises that remained as individual businesses as of 2014. The result showed that newly incorporated enterprises had sales amounts that were roughly four times greater than enterprises that remained as individual businesses. This indicates that individual businesses that became incorporated enjoy a higher performance level than enterprises that remained as individual businesses.

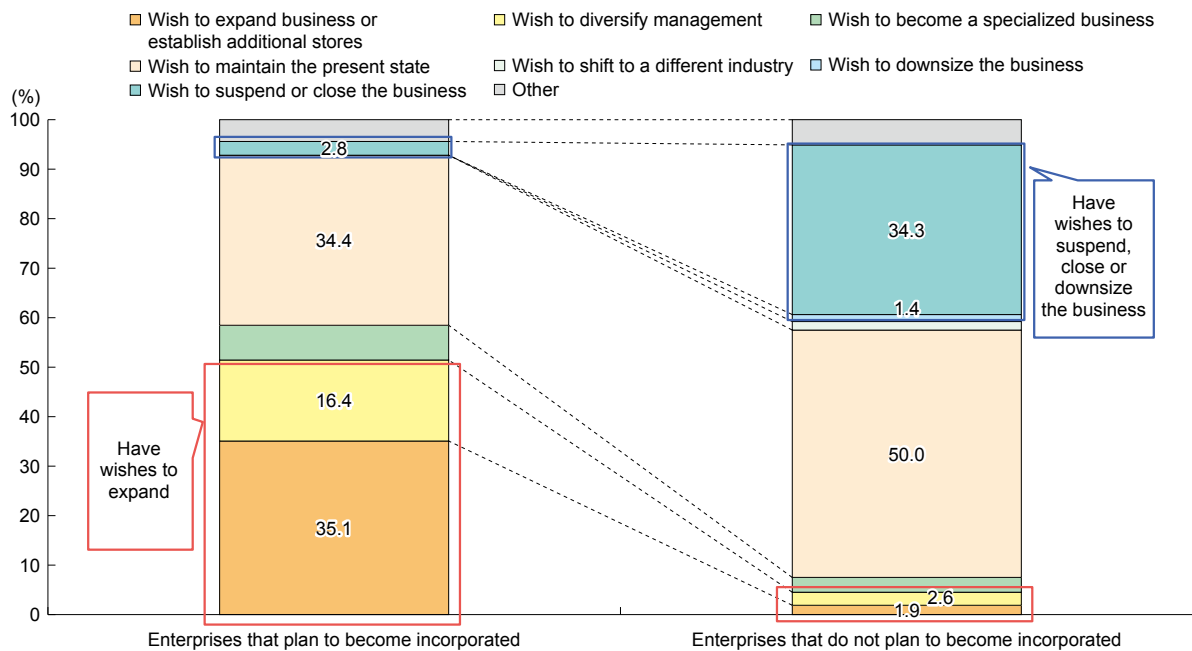
Fig. 1-1-10 Incorporation trends

Sources: Recompiled from MIC, *2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

Note: The above figure shows the trends of 3,326,371 enterprises that existed from February 2012 to July 2014.

Let us examine not only enterprises that have actually become incorporated, but also individual businesses that plan to become incorporated. According to the *Unincorporated Enterprise Survey*, only a small 2% or so of all individual enterprises have plans to become incorporated, but a total of 51.4% and a much larger ratio compared to enterprises that do not plan to become incorporated, have an interest in developing their business

in the future, such as by expanding their business, establishing additional stores, or diversifying their management (Fig. 1-1-11). Additionally, while 35.7% of enterprises that do not plan to become incorporated wish to suspend or close their business or wish to downsize their business, a mere 2.8% of enterprises that plan to become incorporated wish the same.

Fig. 1-1-11 Individual enterprises' interest in future business development

Sources: Recompiled from MIC, *Unincorporated Enterprise Survey results*.

As shown above, even among SMEs, there are differences in the degree of improvement of business conditions between medium enterprises and small enterprises, and the environment surrounding small enterprises remains difficult. Furthermore, even among small enterprises, the business performance of corporate enterprises is improving, but that of individual businesses remains level or is on a decline. When we look at individual businesses, those that have become newly incorporated

have a higher level of sales compared to individual businesses that remain unincorporated, and even among individual businesses, those that plan to become incorporated tend to have a stronger desire to expand their business. In this way, trends in business performance and business expansion differ according to whether a small enterprise is a corporate entity or an individual entity, and whether it aims to become incorporated or not.

2. Business conditions of small enterprises by industry and region

Next, let us examine changes in the business conditions of SMEs and micro-businesses in 2016, by industry and region.

In the first quarter of 2016, business conditions dropped 2.8 points compared to the previous quarter, mainly in the manufacturing and service industries, which suffered poor sales of winter articles, given the mild winter (Fig. 1-1-12). The second quarter saw a 1.4-point drop compared to the previous quarter, mainly in the service and wholesale trade industries, considered an impact of the Kumamoto Earthquake that occurred on April 14, 2016. In the third quarter, there was a 1.3-point increase compared to the previous quarter, mainly owing to the progress of post-earthquake restoration work and recovery of productions in the construction and manufacturing industries. Among the service industries, the increase was mainly attributed

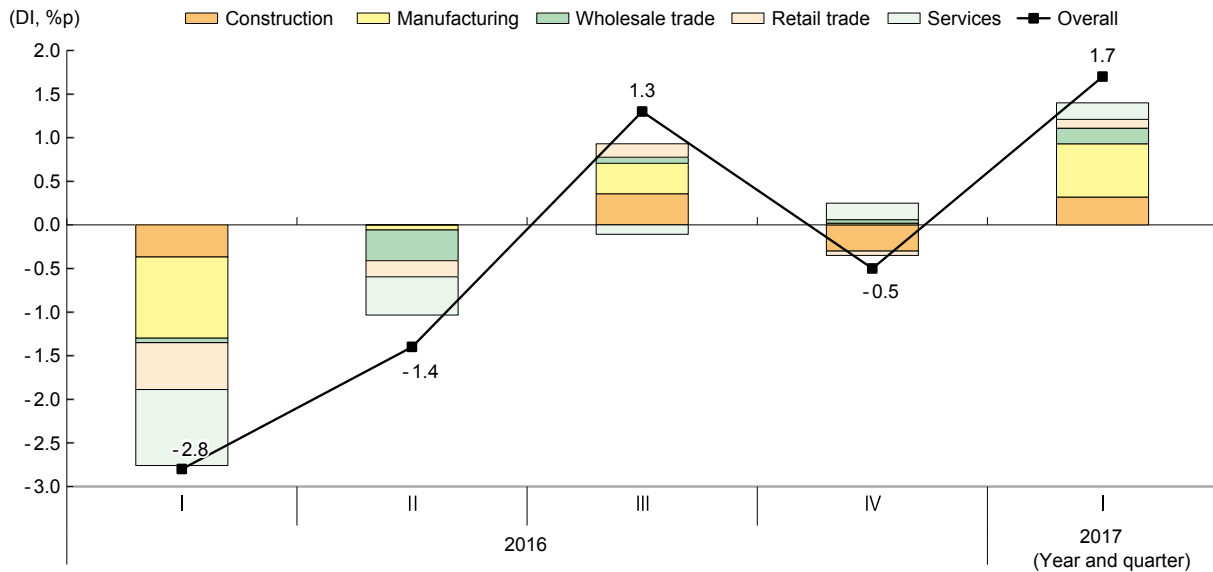
to the post-earthquake restoration and recovery of inbound demand in the accommodations industry. The fourth quarter marked a 0.5-point drop compared to the previous quarter, as a result of business conditions mainly in the construction industry and particularly the accommodations industry among the service industries, which were affected by the earthquake that struck central Tottori Prefecture on October 21, 2016.

Additionally, throughout the year in 2016, there were constant voices of concern about the deceleration of the economy in emerging countries, the decline in domestic demand due to the falling population, and the shortage of workers.

The first quarter of 2017 marked a 1.7-point increase in business conditions compared to the previous quarter, owing to improved business conditions in the

manufacturing industries, where signs of recovery were seen in the production of automobiles and production machinery components.

Fig. 1-1-12 Breakdown of the business conditions DI by industry (Survey on SME Business Conditions)

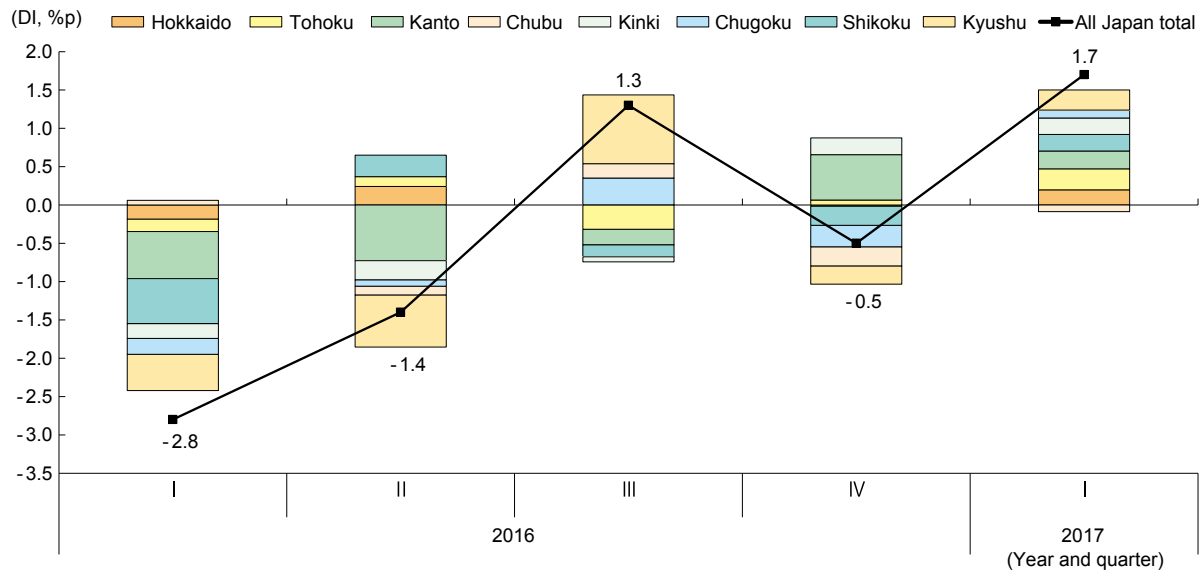


Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

- Notes:
1. The business conditions DI is calculated as the percentage (%) of companies that described business conditions as “favorable,” minus the percentage (%) of companies that described them as “unfavorable” compared to the previous quarter.
 2. Due to the nature of seasonal adjustment, the sum of the stacks of figures for each industry does not correspond to the total of all industries.

Next, when we examine the business conditions of SMEs by region, we see that the Kyushu region contributed the most to pushing down the index, as an impact of the Kumamoto Earthquake that occurred in the second quarter of 2016 (Fig. 1-1-13). However, in the following third

quarter, the same Kyushu region contributed the most to pushing up the index, as a reaction to the previous quarter. In the fourth quarter, business conditions in the Chugoku region pushed down the total, due to the impacts of the Central Tottori Earthquake.

Fig. 1-1-13 Breakdown of the business conditions DI by region (Survey on SME Business Conditions)

Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

- Notes:
1. The business conditions DI is calculated as the percentage (%) of companies that described business conditions as "favorable," minus the percentage (%) of companies that described them as "unfavorable" compared to the previous quarter.
 2. Due to the nature of seasonal adjustment, the sum of the stacks of figures for each area does not correspond to the total of all areas.

Column 1-1-1 Countermeasures for SMEs affected by the 2016 Kumamoto Earthquake

The 2016 Kumamoto Earthquake that occurred in April 2016 wrought severe damage mainly to Kumamoto Prefecture, and affected many SMEs.

To directly assess the plight of SMEs in the affected region and promote government-wide efforts to implement the necessary countermeasures, the Ministry of Economy, Trade and Industry established a Comprehensive SME Countermeasure Headquarters, with the METI Minister as director. It also stationed personnel in Kumamoto to assess the current situation of affected SMEs.

METI also took prompt measures to provide financial support to SMEs and micro-businesses affected by the Kumamoto Earthquake. They included the provision of disaster recovery loans from governmental financial institutions, the provision of Safety Net Guarantee No. 4 from the Credit Guarantee Corporation, requests to governmental financial institutions for considerations in modifying existing loan repayment conditions, and the provision of mutual aid disaster loans to small enterprises. Special consultation centers were also established to respond to inquiries from businesses. Additionally, as measures to facilitate additional funding, disaster-related credit guarantees and reduced-interest disaster recovery loans were set up as a special provision to the Small and Medium-sized Enterprise Credit Insurance Act approved under the Act on Special Financial Support to Deal with the Designated Disaster of Extreme Severity.

Furthermore, in consideration of the fact that damage from the earthquake was wide-ranging and catastrophic, and that Japan's economy was at risk of stagnating due to damage to the supply chain, a measure was taken to provide group subsidies for the restoration of facilities and equipment of SMEs and other such groups, from the FY2016 Reserve Fund of the Kumamoto Earthquake Restoration etc. Schemes were also created for the provision of financial support through governmental financial institutions, such as the establishment of the 2016 Kumamoto Earthquake Special Loan System, and the necessary budgets were allocated to ensure early reconstruction from the earthquake, such as the Micro Business Sustainability Subsidy for cultivation of sales channels by micro businesses in the Kyushu region.

In addition to the above, requests were made to relevant organizations to give special considerations to subcontractor SMEs, the due dates for application to public subsidies were extended, experts were dispatched to support the management of affected SMEs, a guidebook was published and distributed to disseminate information on support measures for affected SMEs, and special pages for support information were created within the website of SME Agency and Mirasapo, a portal site for SME support.

Fig. Column 1-1-1 Countermeasures for SMEs affected by the 2016 Kumamoto Earthquake

Response to inquiries and consultations	<ul style="list-style-type: none"> • Establishment of special consultation centers • Dispatch of experts
Financial support	<ul style="list-style-type: none"> • 2016 Kumamoto Earthquake special loans • Safety Net Guarantee No. 4 • Fund loan program for management improvement of micro businesses (Marukei loans) • Disaster-related guarantees • Mutual aid disaster loans to small enterprises
Subsidies	<ul style="list-style-type: none"> • SME Group Subsidy (Post-disaster recovery project on joint facilities of small and medium business associations, etc.) • Program for earthquake recovery in shopping districts • Recovery project on joint facilities of small and medium business associations, etc.
Requests, etc. to relevant institutions	<ul style="list-style-type: none"> • Requests to relevant organizations for special consideration to subcontractor SMEs • Requests for considerations regarding opportunities for SMEs to receive orders from the public sector • Flexibility of fund loans for management improvement of micro businesses (Marukei loans)
Other (modification of procedures, etc.)	<ul style="list-style-type: none"> • Extension of due dates for application to public subsidies • Requests to business associations, etc. that engage in mutual aid businesses, to relax procedures • Extension of due dates for submission of application forms and reports based on the Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises • Flexibility in the requirement of SME organizations to convene a general meeting of representatives
Publicity and information provision	<ul style="list-style-type: none"> • Publication and distribution of a guidebook for affected SMEs • Provision of information via the website of SME Agency, twitter, and Mirasapo

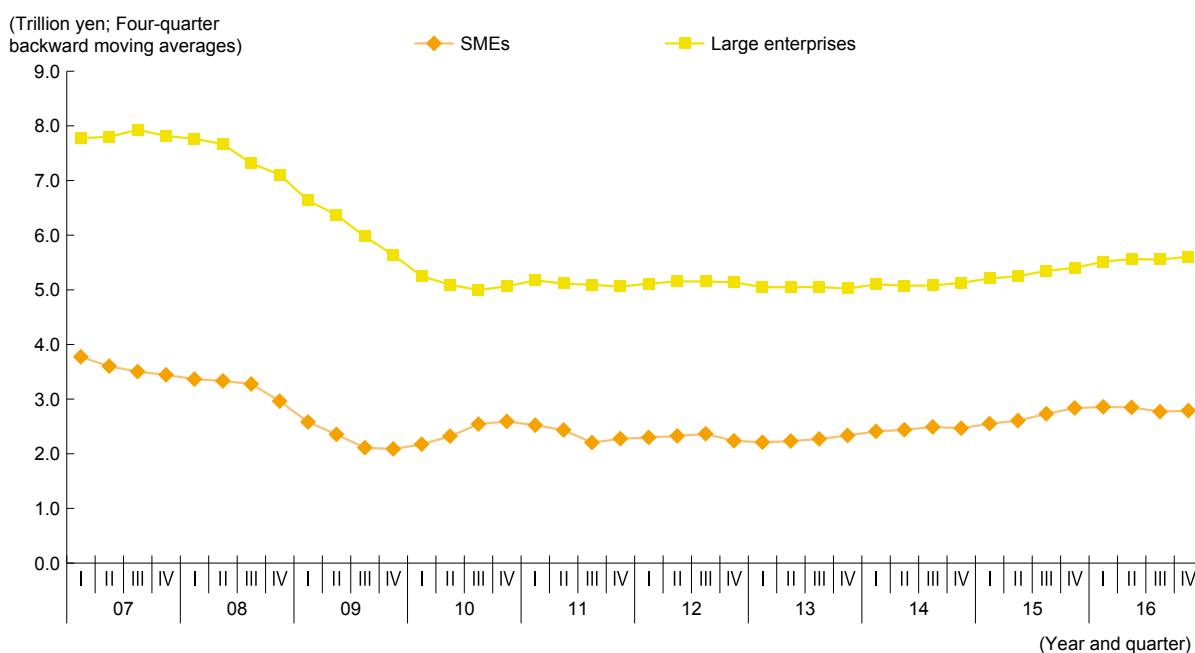
3. Small enterprise issues

Below, we shall analyze the issues that small enterprises face, particularly with regard to (1) capital investment trend, (2) status of overseas expansion, and (3) status of transactions.

(1) Capital investment trend

First, let us take a look at the trend in capital investment among large enterprises and SMEs. Investment amount dropped significantly from 2008 to 2009, due in part to the impacts of the Lehman crisis. It thereafter showed signs of leveling off, but shifted to a slight increase among both large enterprises and SMEs (Fig. 1-1-14). Nevertheless, it remained below the 2007 level before the Lehman crisis.

Fig. 1-1-14 Capital investment by enterprise size



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

When we examine the capital investment of relatively small enterprises using the *Financial Statements Statistics of Corporations by Industry, Annually*, we see that enterprises with a capital of less than ¥10 million have made an increasing amount of capital investment from fiscal 2011 to 2014, and have maintained a higher level

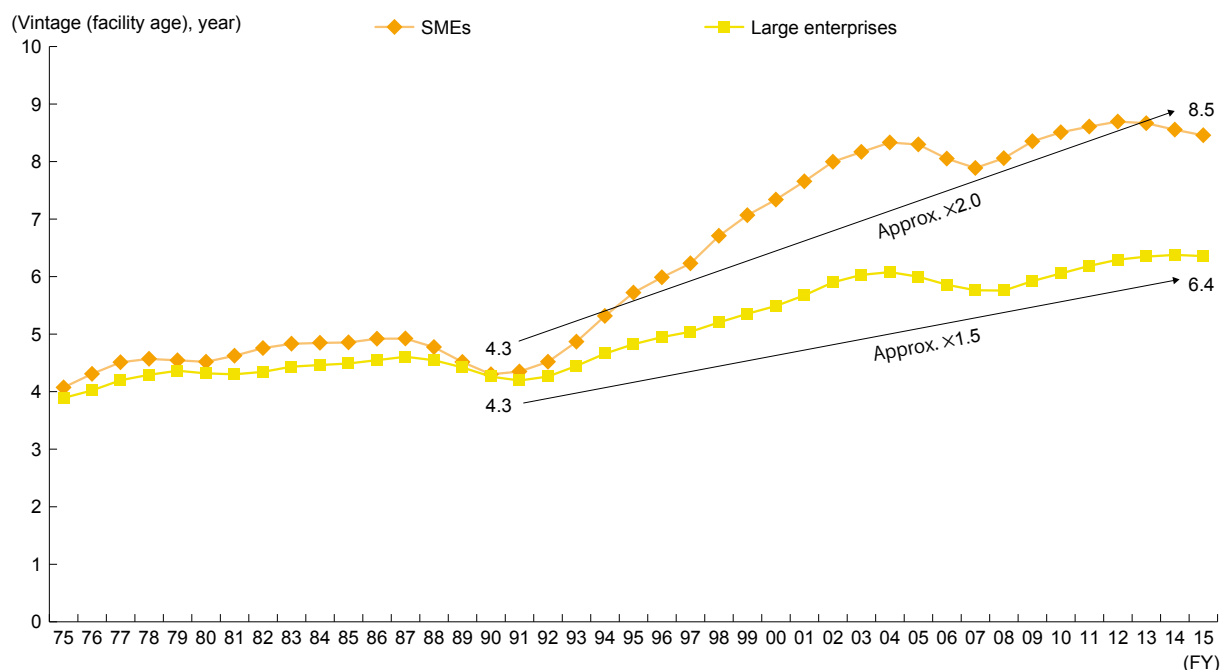
of investment than before the Lehman crisis, although it showed a slight decline in fiscal 2015 (Fig. 1-1-15). Capital investment also grew for five consecutive years among enterprises with a capital of more than ¥10 million and less than ¥100 million, and maintained a level higher than before the Lehman crisis.

Fig. 1-1-15 Capital investment amounts by enterprise size (medium & small enterprises)

Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Next, we shall examine the degree of aging of facilities, or the number of years that has passed since a facility was newly constructed. At present, capital investment by SMEs is increasing, so the degree of aging is gradual, but when compared to 1990, when the age, or “vintage”

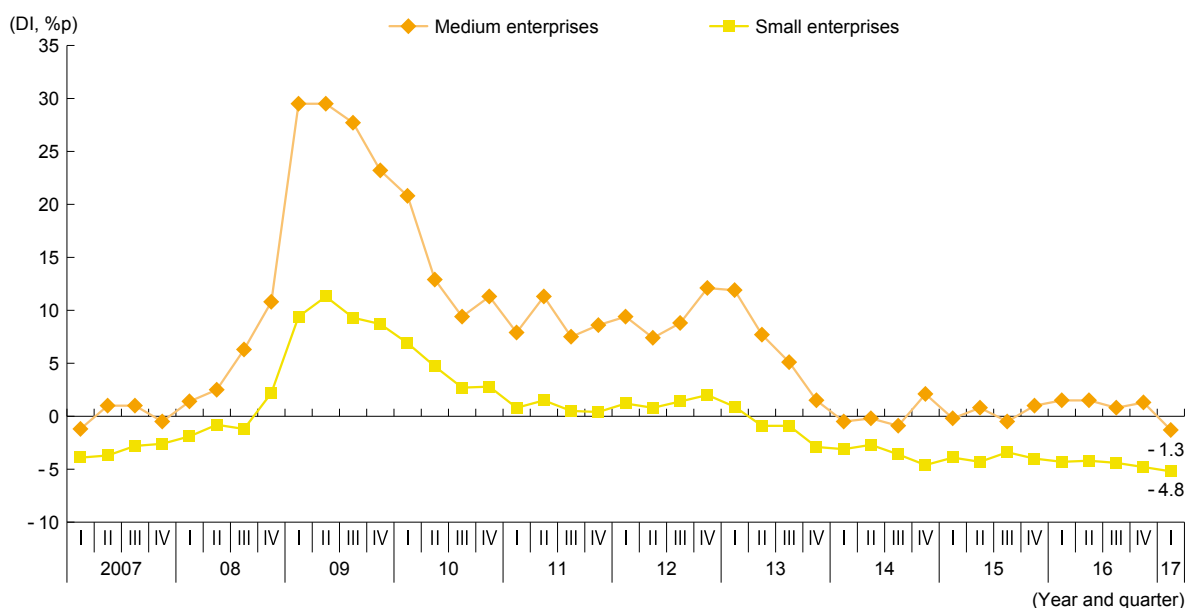
of facilities was basically the same in both SMEs and large enterprises, facilities in large enterprises have aged approx. 1.5-fold, while those in SMEs have aged approx. 2.0-fold, indicating particularly a larger proportion of aging facilities in SMEs (Fig. 1-1-16).

Fig. 1-1-16 “Vintage” of facilities by enterprise size

Source: Prepared by SME Agency using MOF, *Financial Statements Statistics of Corporations by Industry, Annually* and based on Shoko Research Institute, *SME Competitiveness and Capital Investment*.

Let us also look at the sense of having an excess or lack of facilities. In recent years, the sense of having excess facilities has begun to ease, and a sense of lack has emerged particularly among small enterprises, with

the ratio of enterprises that sense a lack of facilities surpassing the ratio of enterprises that sense an excess of facilities (Fig. 1-1-17).

Fig. 1-1-17 Production facility DI of SMEs and small enterprises (manufacturing industries)

Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

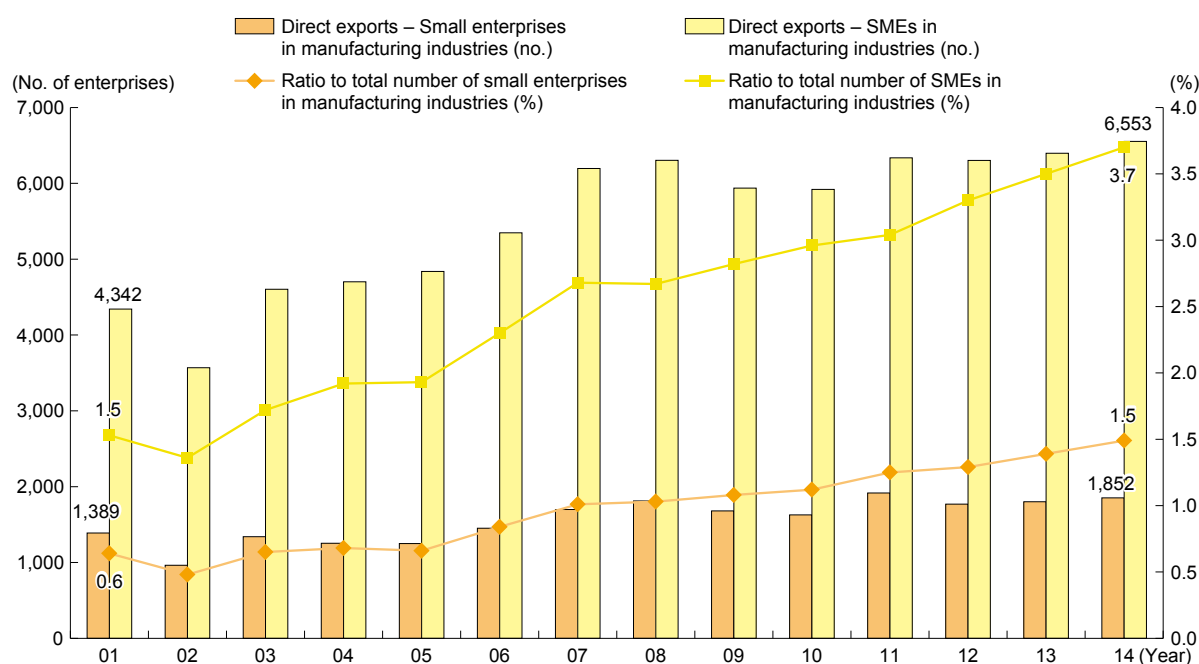
Note: Production facility DI equals the ratio (%) of enterprises that sense an excess of facilities, minus the ratio (%) of enterprises that sense a lack of facilities about the current facility level.

(2) Status of overseas expansion by SMEs and small enterprises

Among all SMEs, the number of enterprises that engage in direct export in the manufacturing industries is increasing, and totaled 6,553 enterprises in 2014. The ratio of such enterprises to SME manufacturing industries as a whole has also risen for six consecutive years since

2009, but still remained at a low 3.7% in 2014. With respect to small enterprises in manufacturing industries, the number of enterprises that engage in direct export totaled 1,852, and as with SMEs in general, the ratio of exporting enterprises has increased, but remained at a low 1.5% in 2014 (Fig. 1-1-18).

Fig. 1-1-18 Number of enterprises engaging in direct export in the manufacturing industries, by enterprise size



Sources: Recompiled from METI, *Census of Manufactures* and MIC, METI, *2012 Economic Census for Business Activity*.

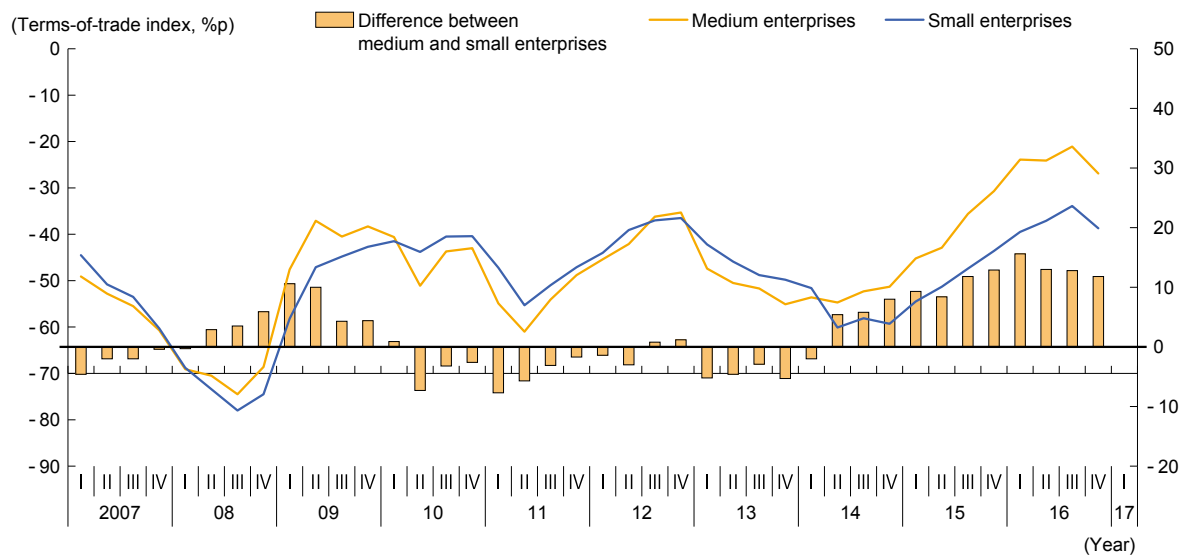
Notes: 1. Statistics for units of businesses with four or more workers have been recalculated into enterprise units.

2. According to the 2014 *Census of Manufactures* (recompiled), manufacturing businesses with four or more workers were included among 177,069 SMEs and among 124,019 micro businesses.

(3) Status of transactions by SMEs and micro-businesses

Next, to examine the status of transactions by SMEs and micro-businesses, and particularly the situation regarding cost transfers, let us examine the terms-of-trade index, which is obtained by subtracting purchase price DI from the unit price DI for sales. Fig. 1-1-19 shows that the index was practically at the same level among both medium and small enterprises until around 2013, and thereafter began to improve among both groups of enterprises, and particularly among medium enterprises.

Because the degree of improvement seen among small enterprises was not as large as medium enterprises, the difference between the two groups of enterprises widened to the largest ever in the first quarter of 2016. When purchase price is on the rise but the index is in the negative, there is the possibility that purchase price is not being properly passed on to sales price, which means that small enterprises face a more severe transaction environment than medium enterprises (Fig. 1-1-19).

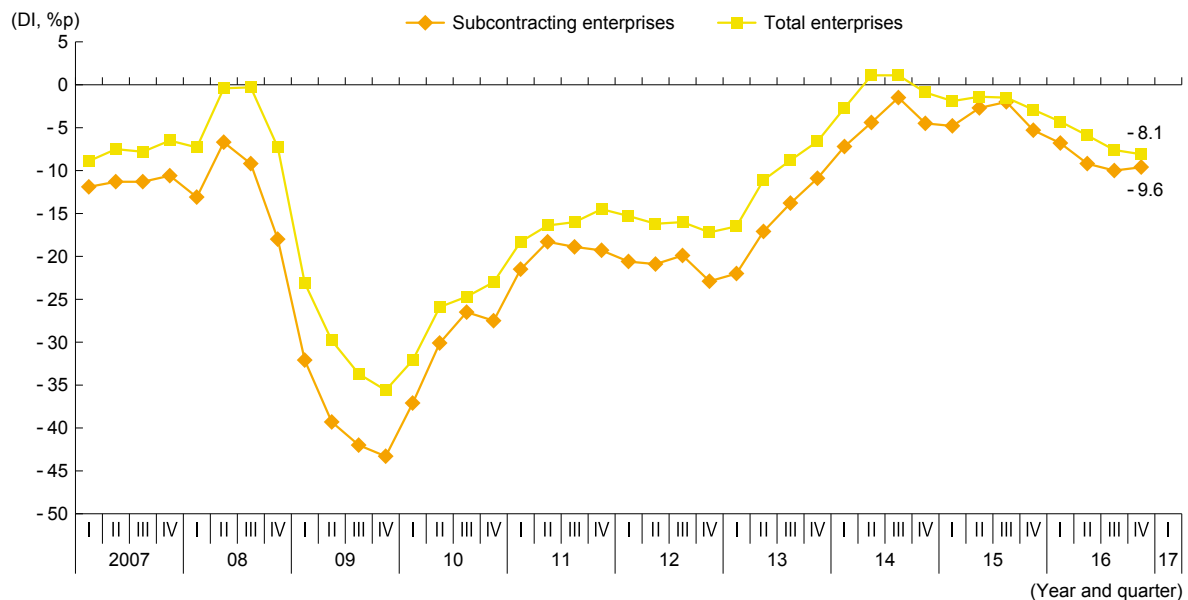
Fig. 1-1-19 Terms-of-trade index (medium & small enterprises)

Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

Note: The terms-of-trade index equals the unit price DI for sales minus the purchase price DI.

Furthermore, when we examine the actual transaction situation of subcontracting enterprises, we see that their unit sales price falls below that of all enterprises in

practically all quarters, indicating a difficult situation in raising unit sales prices (Fig. 1-1-20).

Fig. 1-1-20 Unit price DI for sales of subcontracting enterprises (manufacturing industries)

Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

Note: Unit price DI for sales equals the ratio (%) of enterprises whose unit sales price rose compared to the previous year, minus the ratio (%) of enterprises whose unit sales price dropped.

4. Summary

The business conditions of small enterprises in fiscal 2016 continued to show a gradual recovery, along with an improvement in the financial status and number of bankruptcies of small enterprises. Ordinary profits also picked up among small enterprises that are corporate entities, but among individual businesses, operating profits remained unchanged or tended to drop, such that a disparity emerged in the degree of improvement of ordinary profits, capital investment, and terms-of-trade index between medium and small enterprises. Subcontracting enterprises also tolerated a decline in unit sales prices, which hovered at low levels compared to all enterprises.

At the same time, however, a certain ratio of individual

enterprises that became incorporated saw an increase in their sales level, and enterprises that plan to become incorporated tended to display a strong desire in expanding their business.

Although the situations vary even among SMEs and small enterprises depending on enterprise size and organizational structure, small enterprises are expected to make an effort to achieve sustainable development by making capital investments to compensate for the lack of facilities accompanying the aging of existing facilities, cultivate new demand to overcome the slow growth in sales, and take other such initiatives. Toward this end, an improvement must also be made in the transaction conditions of SMEs and small enterprises.

Column 1-1-2 Basic Policies for Future-oriented Trade Practices (Seko Plan)

To achieve a positive economic growth cycle, transaction conditions for SMEs and micro-businesses must be improved. In September 2016, Mr. Hiroshige Seko, Minister of Economy, Trade and Industry, released “Basic Policies for Future-oriented Trade Practices” (Seko Plan) as a package of measures for improving transaction conditions. This column introduces initiatives related to these measures.

Inter-ministerial liaison conference on improving transaction conditions of subcontractor SMEs (December 2015 –)

A liaison conference (chairman: Mr. Seko, Deputy Chief Cabinet Secretary (then)) was established in the Prime Minister’s Office in December 2015, to assess the actual state of transactions by subcontractor SMEs and examine the necessary improvements in transaction conditions from the perspective of developing an environment that is conducive to increasing wages in SMEs and micro-businesses. The conference has been held 11 times as of March 2017.

Corporate surveys and interviews about subcontracts (December 2015 – August 2016)

Between December 2015 and March 2016, the actual state of subcontract transactions was investigated by means of a written survey to more than 15,000 large enterprises, an online survey to some 10,000 SMEs, and interview surveys with some 200 subcontractor SMEs.

Based on the results of the above surveys implemented up to March 2016, interviews were held with 95 large enterprises in industries where issues were deemed to exist (automobile manufacturing, construction, truck transportation (incl. shipping operators)), regarding their procurement policies and initiatives for fair transactions.

Basic Policies for Future-oriented Trade Practices (released September 15, 2016)

The “Basic Policies for Future-oriented Trade Practices” (Seko Plan) were released, with the objective of promoting fair trade between main subcontracting enterprises and subcontractors, enhancing added values, and improving the overall trade environment through the entire supply chain.

Fig. Column 1-1-2 Basic Policies for Future-oriented Trade Practices

Basic Policies for Future-oriented Trade Practices

Sept. 2016
Ministry of Economy,
Trade and Industry

3 Basic policies

- (1) Strictly deal with inappropriate actions by main subcontracting enterprises and **realize fair trade environments**.
- (2) Disseminate and establish desirable trade practices and other actions that contribute to **fair trade and improvement of added value for both main subcontracting enterprises and subcontractors**.
- (3) Make efforts to **improve trade environments across entire supply chains and developing environments favorable for wage raises**.

3 Priority issues Thoroughly enforce measures to prevent main subcontracting enterprises from compelling their subcontractors to pay expenses that the main subcontracting enterprises are required to bear.

Optimization of price determining methods

Requests for ○% cost reductions across the board, no consideration for increases in labor costs, etc.

Optimization of cost burden

Imposing the storage of molds free of charge for prolonged periods after completion of mass production, etc.

Improvement of terms of payment

High ratio of receiving payments by promissory note, having no choice but to pay discounted costs, etc.

Defining and strictly implementing cross-industry rules (horizontal axis)

Item	Specific policy
Strengthen the enforcement of the Subcontractor Act (revision of operation standards)	Add case examples of violations, to strengthen the collection of information regarding violations and prevent violations. [Propose to the Fair Trade Commission to include case examples of such violations as improper cost reduction activities and imposition of the storage cost of molds]
Promote fair trade and enhance added values (revision of promotion standards) *Act on the Promotion of Subcontracting Small and Medium-sized Enterprises	Define preferable trade practices, and request main subcontracting enterprises to adopt those practices (cooperation in increasing productivity of business partners, consideration regarding rises in labor costs, fair trade through the entire supply chain, etc.). [To be revised within the fiscal year]
Improve the terms of payment of subcontracting fees (notification, review of promotion standards)	Request main subcontracting enterprises to improve the terms of payment of subcontracting fees (payment in cash as a basic rule, prevention of unilateral imposition of the burden of discounts, shortening of the payment period of promissory notes, etc.). [To be reviewed within the fiscal year, first time in approx. 50 years]
Place greater weight on surveys and inspections of the Subcontractor Act	Implement written surveys under the Subcontractor Act with a focus on cost reductions, molds, and promissory notes, and conduct special on-site inspections. [To be implemented within the fiscal year]

Formulation of industry-specific voluntary action plans (vertical axis)

- (1) Among industries that formulate subcontracting guidelines, first request the automobile industries, which have a broad subcontracting structure, to formulate and steadily execute a voluntary action plan for promoting fair trade and enhancing added values through the entire supply chain, and follow up on their efforts. [To be formulated within the fiscal year]
- (2) Revise industry-specific subcontracting guidelines, and include best practices in coordination and cooperation between main subcontracting businesses and subcontractors. [To be revised within the fiscal year]

Defining and strictly implementing cross-industry rules (December 14, 2016)

- (1) Operation standards concerning the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (partial revision announced via the Japan Fair Trade Commission's Secretary General Notice No. 15 of Dec. 14, 2016)
The Fair Trade Commission increased the number of case examples of violations such as improper cost reduction activities and the imposition of the storage cost of molds, from 66 case examples to 141.
- (2) Promotion standards based on the provision in Article 3 Paragraph 1 of Act on the Promotion of Subcontracting Small and Medium-sized Enterprises (Ministry of Economy, Trade and Industry Announcement No. 290 of Dec. 14, 2016)
The following items were added as preferable trade practices between main subcontracting enterprises and subcontractors.
 - (i) Cooperation in increasing productivity
 - (ii) Guarantee of reasonableness regarding requests for cost reductions
 - (iii) Reflection of increased labor cost on transaction value
 - (iv) Optimization of the storage and management of molds (cost of storage due to reasons attributable to the main subcontracting enterprise to be borne by the main subcontracting enterprise)
 - (v) Compliance with industry-specific subcontracting guidelines, formulation and execution of voluntary action plans, etc.
- (3) About the payment method of subcontract fees (Dec. 14, 2016; 20161207; No. 1, Japan Fair Trade Commission Inter-enterprise Trade Division No. 140, Director-General of Small and Medium Enterprise Agency, Secretary General of the Japan Fair Trade Commission)
Main subcontracting enterprises that are large enterprises were requested to take the initiative in executing the following items.
 - (i) Pay subcontract fees in cash as much as possible.
 - (ii) For payments by promissory note, determine the subcontract fee upon sufficient consultation so that discounts are not borne by the subcontractors.
 - (iii) Make promissory notes payable within 120 days after sight (90 days in the textiles industry) as a matter of course, and strive to make them payable within 60 days in the future.

Formulation of industry-specific voluntary action plans, etc.

- (1) Among industries that formulate subcontracting guidelines, the automobile industries, which have a broad subcontracting structure, will be requested to formulate and steadily execute a voluntary action plan for promoting fair trade and enhancing added values through the entire supply chain, and their efforts will be followed up.
As of the end of March 2017, 13 organizations in 8 industries have formulated a voluntary action plan.
- (2) Based on the revision to the operation standards concerning the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, industry-specific subcontracting guidelines have been revised, and best practices in coordination and cooperation between main subcontracting enterprises and subcontractors have been added.

Door-to-door surveys by transaction inspectors (subcontract G-men) (January 2017 –)

The Small and Medium Enterprise Agency will newly assign "subcontract G-men" to interview as many as 2,000 or more subcontractor SMEs per year. Information obtained through these interviews will be shared with order-placing businesses and industrial organizations as necessary, on the premise of confidentiality, to strongly urge initiatives for promoting fair trade.

Chapter 2

Life cycle and productivity of SMEs and micro-businesses

As reviewed in the previous chapter, the situation surrounding SMEs is improving, but the degree of improvement differs according to region and industry, and issues such as a slowdown in sales and aging facilities persist among SMEs.

In order for the Japanese economy to continue to grow hereafter despite the expected decline in population, it is important for SMEs to increase productivity and gain stronger earning power.

However, SMEs in Japan face various issues that make productivity increases difficult, such as the lack of new market entries, the aging of SME business managers and an increase in market exits. Changes in the life cycle of enterprises, from the birth of new enterprises, or new entries, through the growth of continuing enterprises (expansion of market share and development of new businesses), to the exit of enterprises due to bankruptcy or closure, are thought to have a large influence on overall SME productivity in Japan. Therefore, in this chapter, we will first review trends in the elements composing the life cycle of SMEs, such as entry, growth, bankruptcy and exit, and quantitatively analyze the impacts they have on SME productivity in Japan.

Section 1 Present state of market entries and exits

In this section, we will examine the degree of impact that market entries and exits of enterprises have on the number of enterprises and workers in Japan, and the

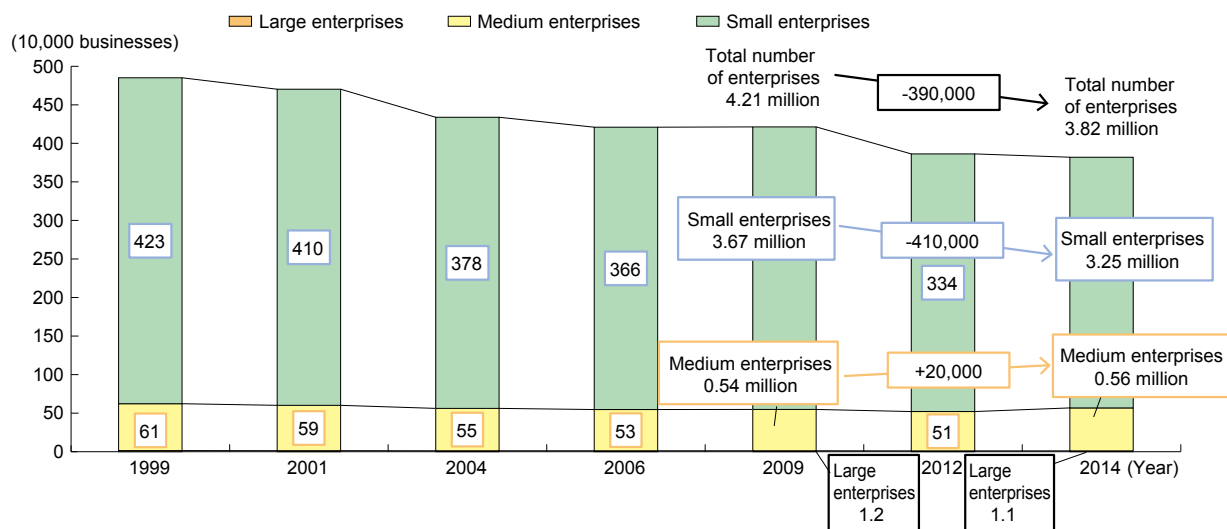
changes in the rate of entries and exits, and analyze the present state of exiting enterprises using the database of Tokyo Shoko Research, Ltd.

1. Changes in the numbers of enterprises and workers caused by market entries and exits

The number of enterprises in Japan has been consistently declining since 1999, and decreased by 390,000 enterprises over the five years from 2009 to 2014 (Fig. 1-2-1). In terms of enterprise size, this figure

is a result of a decrease of 410,000 small enterprises, an increase of 20,000 medium enterprises¹⁾, and a decrease of some 800 large enterprises.

1) Medium enterprises here refer to SMEs as defined by the Small and Medium-sized Enterprise Basic Act that do not fall under the category of small enterprises as also defined by the said Act.

Fig. 1-2-1 Number of enterprises by enterprise size

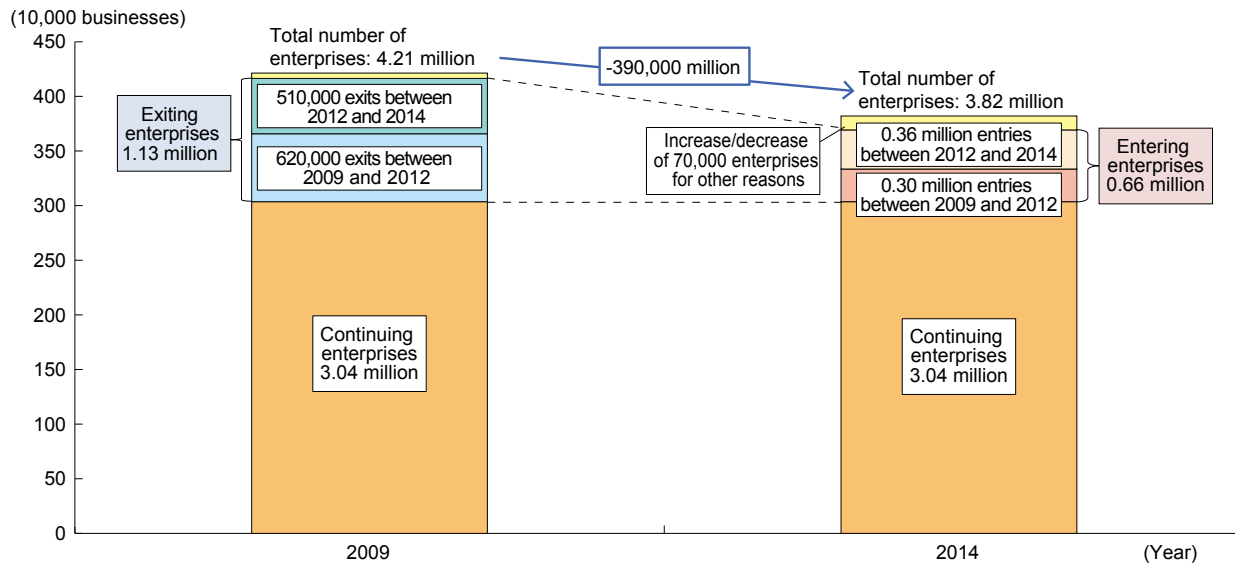
Sources: MIC, 1999, 2001, 2004 and 2006 *Establishment and Enterprise Census*; 2009 and 2014 *Economic Census for Business Frame* and MIC, METI, 2012 *Economic Census for Business Activity*.

Notes: 1. Number of enterprises = Number of companies + Business establishments of sole proprietors
 2. The *Economic Census* is based on an expanded scope of businesses and enterprises based on administrative records such as commercial and corporate registration records, and adopts a “head office collective survey method” whereby the business owner in the head office provides collective information of all branch offices, etc. Therefore, it is not appropriate to compare the results of the *Economic Census* with the results of the *Establishment and Enterprise Census* on simple terms.

From the perspective of entries and exits, the changes in the number of enterprises between 2009 and 2014 are attributed to 0.66 million enterprises that have entered the market and 1.13 million enterprises that have exited the market (Fig. 1-2-2). A breakdown of these figures reveals there were 300,000 entries and 620,000 exits between 2009 and 2012, but 360,000 entries and 510,000 exits

between 2012 and 2014, corresponding to an overall increase of 60,000 entries and a decrease of 110,000 exits.

As of 2014, enterprises that newly entered the market within the past five years account for approximately 17% of the total number of enterprises, indicating that new enterprises are emerging at a certain rate, even while the total number of enterprises is on a decline.

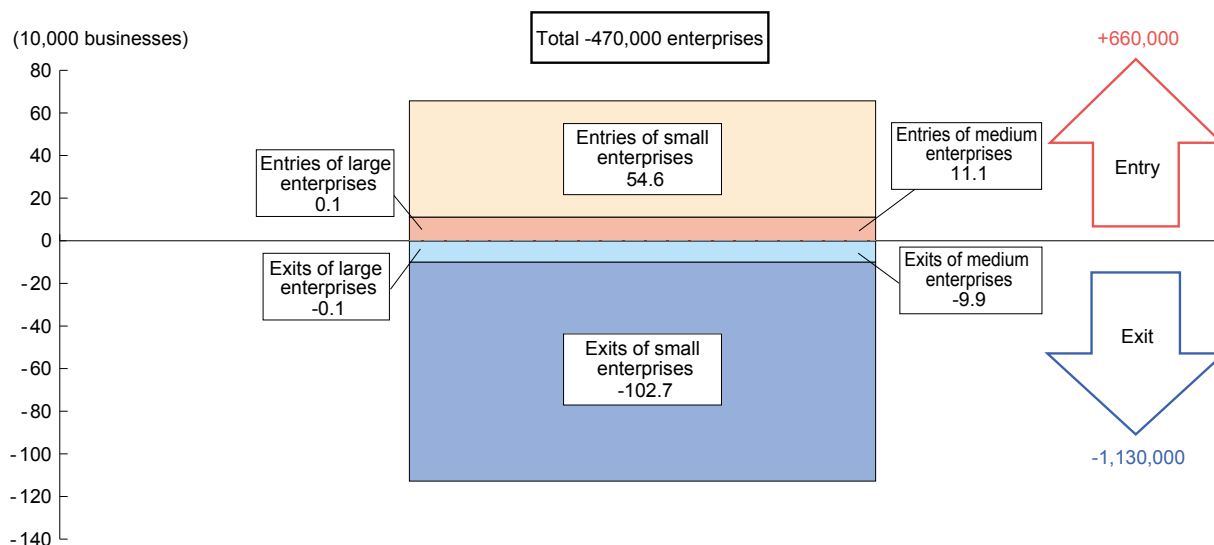
Fig. 1-2-2 Breakdown of changes in the number of enterprises (2009 – 2014)

Sources: Recompiled from MIC, 2009 and 2014 *Economic Census for Business Frame* and MIC, METI, 2012 *Economic Census for Business Activity*.

- Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors
 2. Among enterprises whose corporate information could not be confirmed for both years of comparison using the *Economic Census* of the relevant years, those whose offices are said to have all entered the market are regarded as "entries," and those whose offices are said to have all exited the market are regarded as "exits." Enterprises that did not fall under these categories, such as enterprises that increased or decreased due to mergers, spin-offs or other such reason, and enterprises whose business type changed to or from a primary industry were categorized as "other."
 3. Under this tabulation method, the numbers of entries and exits may be larger than the actual numbers, because enterprises composed of a single office that have relocated their office are counted among both entries and exits, even though they have not actually newly entered or exited the market.

Of the breakdown of the change in the number of enterprises from 2009 to 2014, a look at entries and exits by enterprise size reveals that there were more exits than entries among small enterprises, with 546,000 entries

and 1,027,000 exits, but more entries than exits among medium enterprises, with 111,000 entries and 99,000 exits (Fig. 1-2-3).

Fig. 1-2-3 Breakdown of entries and exits by enterprise size (2009 – 2014)

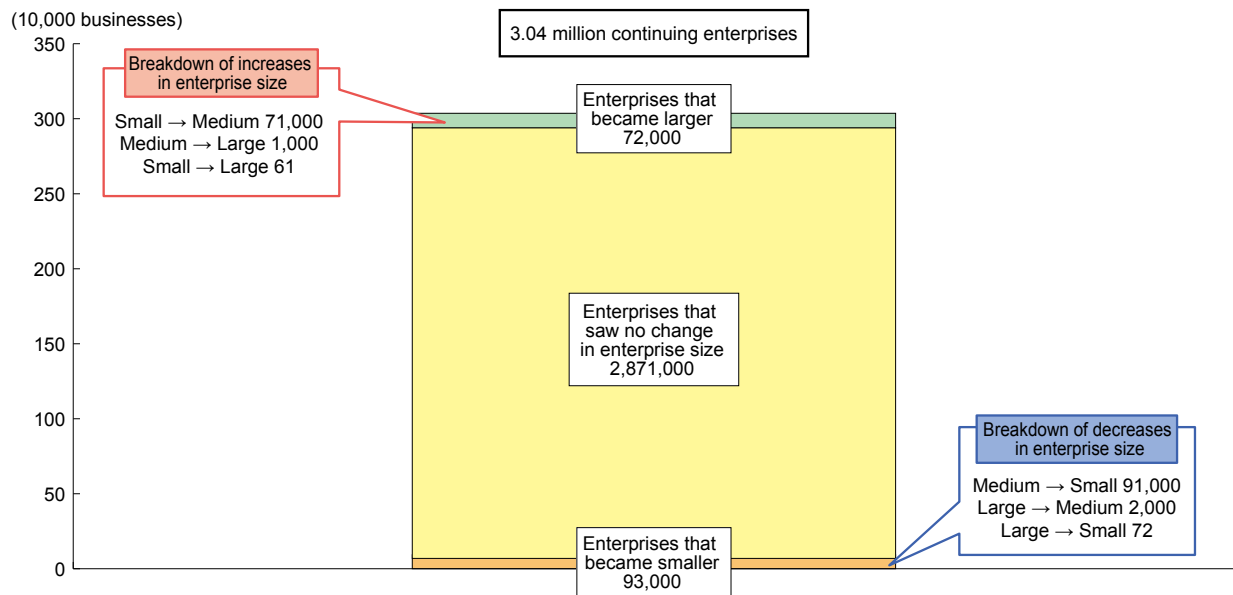
Sources: Recompiled from MIC, *2009 and 2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

- Notes:
1. Among enterprises whose corporate information could not be confirmed for both years of comparison using the *Economic Census* of the relevant years, those whose offices are said to have all entered the market are regarded as "entries," and those whose offices are said to have all exited the market are regarded as "exits."
 2. Under this tabulation method, the numbers of entries and exits may be larger than the actual numbers, because enterprises composed of a single office that have relocated their office are counted among both entries and exits, even though they have not actually newly entered or exited the market.
 3. Entries are the sum of the number of entries between 2009 and 2012 and between 2012 and 2014. The same applies to exits.

Next, let us look at the change in enterprises sizes from 2009 to 2014. Of the 3.04 million continuing enterprises, there was no change in size in approximately 95% of enterprises, or 2.87 million enterprises²⁾ (Fig. 1-2-4). Meanwhile, some 72,000 enterprises increased in size, and 93,000 enterprises decreased in size, mostly attributed

to small enterprises growing into medium enterprises, and medium enterprises downsizing to small enterprises. A change from medium enterprise to large enterprise was seen in 1,000 enterprises, and a change from large enterprise to SME was seen in 2,000 enterprises.

2) "Change in size" here refers to changes that accompany a shift among the small, medium and large enterprise classifications according to the requirements in capital and number of employees based on the Small and Medium-sized Enterprise Basic Act. Therefore, even if the number of workers increases drastically, there are SMEs that remain an SME if their amount of capital does not change.

Fig. 1-2-4 Changes in the enterprise size of continuing enterprises (2009 – 2014)

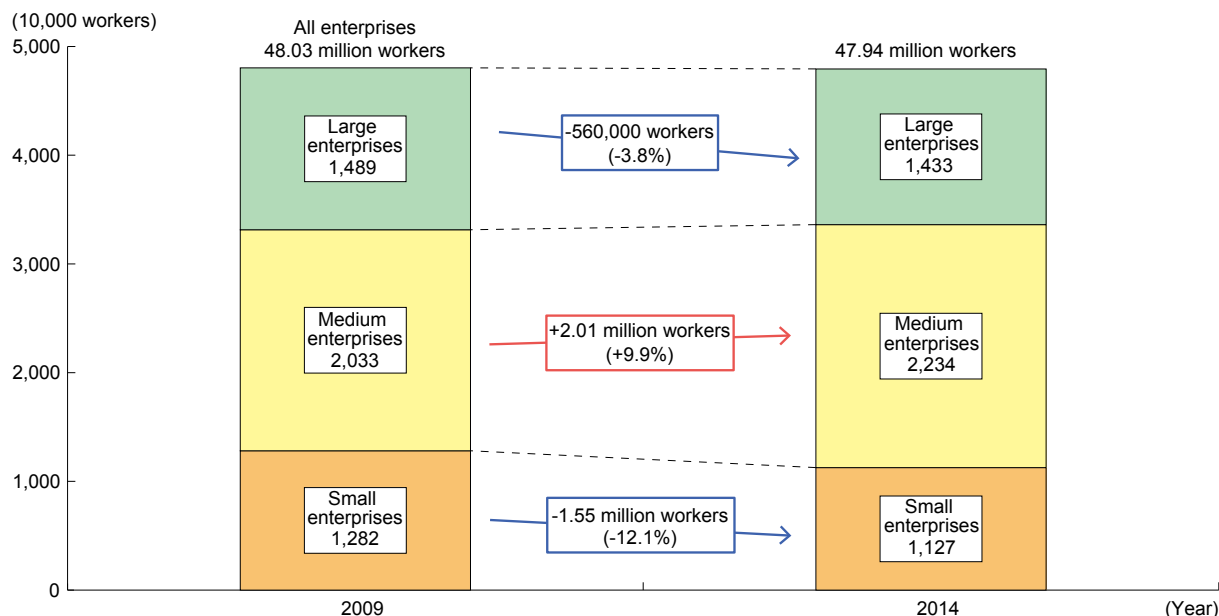
Sources: Recompiled from MIC, *2009 and 2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

Note: "Continuing enterprises" here refer to enterprises that were confirmed as existing in the July 2009, February 2012 and July 2014 surveys.

Next, we shall examine the impacts of entries and exits on employment.

First, an overview of changes in the total number of workers from 2009 to 2014 by enterprise size shows an increase of 2.01 million workers in medium enterprises,

but a decrease of 0.56 million workers in large enterprises and a decrease of 1.55 million workers in small enterprises, corresponding to an overall decrease from 48.03 million to 47.94 million workers (Fig. 1-2-5).

Fig. 1-2-5 Changes in the numbers of workers by enterprise size (2009 – 2014)

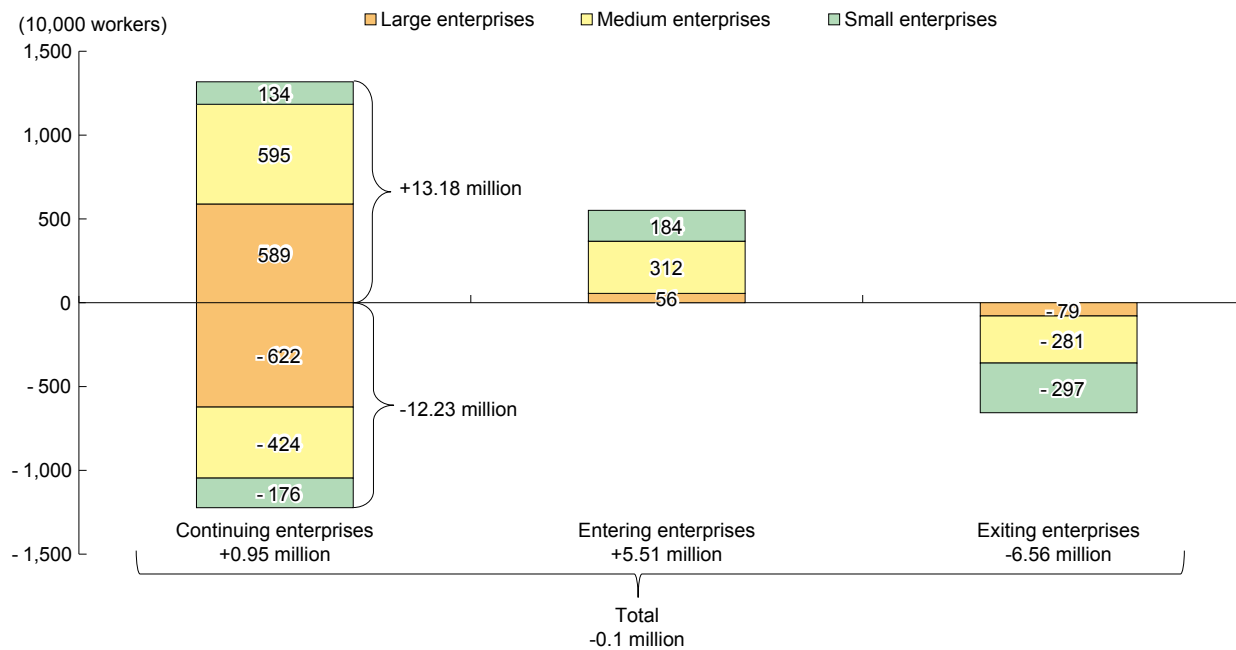
Sources: Recompiled from MIC, *2009 and 2014 Economic Census for Business Frame*.

To examine the characteristics of enterprises that have a changing number of workers, let us look at increases and decreases in the number of workers in continuing enterprises, as referring to enterprises that existed from 2009 to 2014, entering enterprises, as referring to enterprises that have entered the market after 2009, and exiting enterprises, as referring to enterprises that exited the market between 2009 and 2014.

Fig. 1-2-6 shows that between 2009 and 2014, there was an increase of 13.18 million workers and a decrease of 12.23 million workers in continuing enterprises, corresponding to an overall increase of 0.95 million workers. At the same time, there was an increase of 5.51 million workers among entering enterprises, and

a decrease of 6.56 million workers among exiting enterprises. This shows that entries and exits have a certain degree of impact on changes in the overall number of workers.

Let us look at the above in terms of enterprise size. Among entries, the largest increase in number of workers was seen in medium enterprises, and accounted for approximately 57% of the total increase in workers generated by entries. Among exits, the largest decrease in number of workers was seen in small enterprises, accounting for approximately 45% of the total decrease in workers due to exits. Among continuing enterprises, the number of workers decreased in large enterprises and small enterprises, but increased in medium enterprises.

Fig. 1-2-6 Changes in the numbers of workers in terms of entering, exiting and continuing enterprises (2009 – 2014)

Sources: Recompiled from MIC, 2009 and 2014 *Economic Census for Business Frame* and MIC, METI, 2012 *Economic Census for Business Activity*.

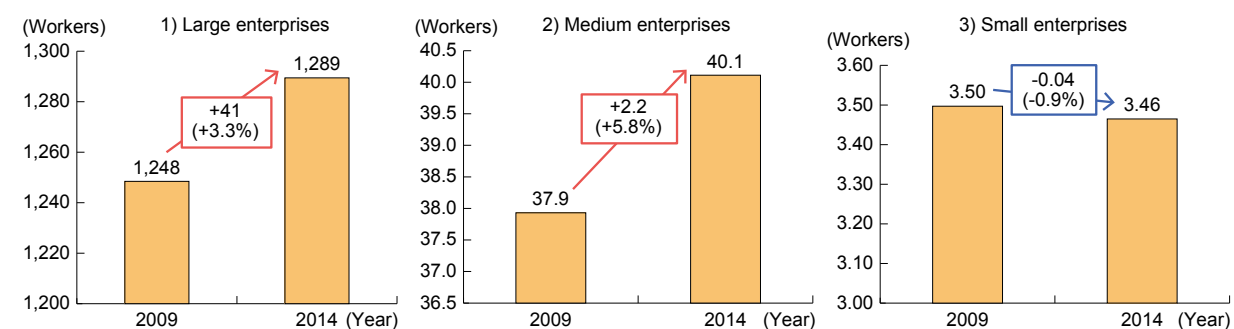
Note: The figures for the enterprise size of continuing enterprises are figures as of 2009.

Above, we examined changes in the numbers of enterprises and workers according to entering, exiting and continuing enterprises, but next let us examine how the number of workers per enterprise changed from 2009 to 2014 as a result of the above changes (Fig. 1-2-7).

Among large enterprises, the numbers of enterprises and workers both decreased, but because the decrease in number of enterprises was larger than the decrease in number of workers, the number of workers per enterprise ultimately increased by 3.3%. Among medium enterprises, the numbers of enterprises and workers both increased, and because the increase in number of workers was larger than the increase in number of enterprises, the number of workers per enterprise ultimately increased by 5.8%.

Among small enterprises, the numbers of enterprises and workers both decreased, and because the decrease in number of workers was slightly larger than the decrease in number of enterprises, the number of workers per enterprise resulted in a 0.9% decrease.

The numbers of enterprises and workers decreased in small enterprises, but the same numbers increased in medium enterprises, and the number of workers per large enterprise and medium enterprise also increased. Therefore, despite the decreasing number of enterprises, the total number of workers decreased only slightly, owing to the increase in the number of workers in relatively large enterprises.

Fig. 1-2-7 Changes in the number of workers per enterprise, by enterprise size (2009 – 2014)

	Large enterprises			Medium enterprises			Small enterprises		
	No. of enterprises	No. of workers	No. of workers per enterprise	No. of enterprises	No. of workers	No. of workers per enterprise	No. of enterprises	No. of workers	No. of workers per enterprise
2009	12,000	14,890,000	1,248	536,000	20,330,000	37.9	3,665,000	12,820,000	3.50
2014	11,000	14,330,000	1,289	557,000	22,340,000	40.1	3,252,000	11,270,000	3.46
Change	-1,000	-560,000	+41	+21,000	+2,010,000	+2.2	-413,000	-1,550,000	-0.04
Rate of change	-6.8%	-3.8%	+3.3%	+3.9%	+9.9%	+5.8%	-11.3%	-12.1%	-0.9%

Sources: Recompiled from MIC, *2009 and 2014 Economic Census for Business Frame*.

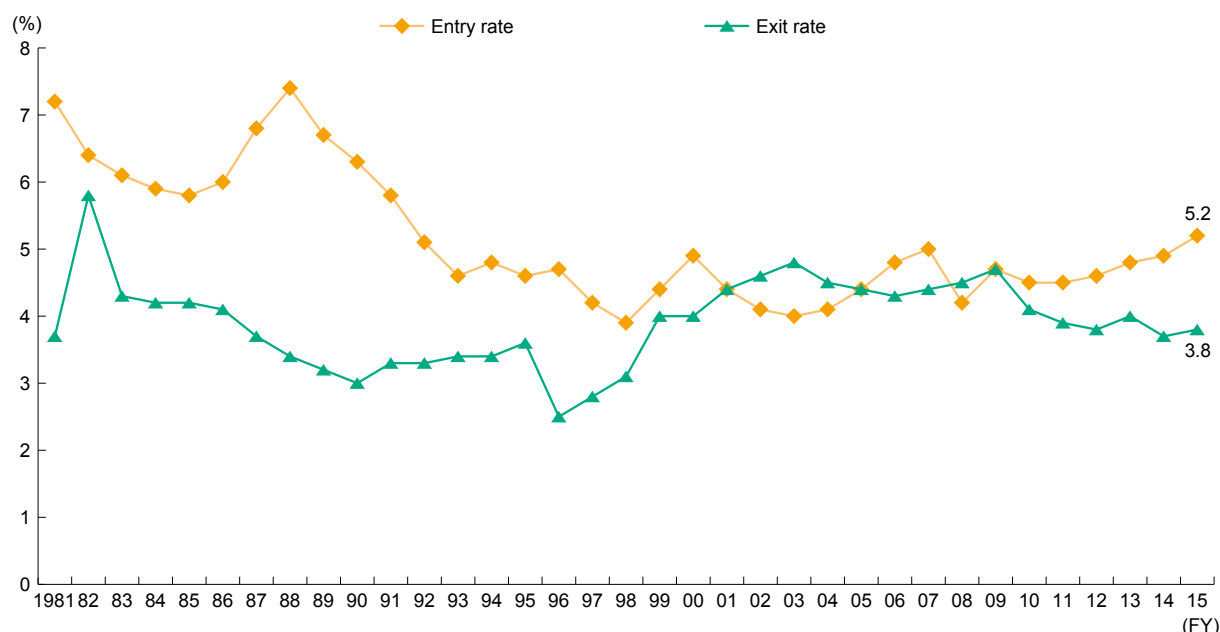
2. Changes and the present state of entry and exit rates

Here, we examine trends in market entries and exits in Japan by looking at entry and exit rates calculated based on the Ministry of Health, Labour and Welfare's *Annual Report on Employment Insurance Programs*³⁾. The entry rate in Japan stood at the 6 to 7% level in the 1980s, but declined after fiscal 1989, and maintained a level below 5% from fiscal 1993 to 2014 (Fig. 1-2-8). In fiscal 2015, it was 5.2%, and rose above the 5% mark for the first time since 1993.

When examining the exit rate using the same index, we see that it was roughly 3 to 4% from the second half of the 1980s to the first half of the 1990s, and thereafter hovered at around the 4 to 5% level, with a higher rate of exits than entries in some years after 2002. The most recent figure shows a somewhat low rate of 3.8%.

3) Entry and exit rates based on the *Annual Report on Employment Insurance Programs* regard the establishment and dissolution of employment relationships in a business establishment as entries and exits, respectively. For this reason, entries and exists cannot be verified by enterprise units, and entries by sole business owners with no employees, for example, cannot be assessed. Nevertheless, the index is used in this analysis, as it is implemented every year, and because it is also used in Japan Revitalization Strategy 2016 (approved by the Cabinet on June 2, 2016) as a KPI of entry and exit rates.

Fig. 1-2-8 Entry and exit rates



Source: MHLW, *Annual Report on Employment Insurance Programs*.

- Notes:
1. Entry rates according to the *Annual Report on Employment Insurance Programs* are the number of business establishments that were newly covered by employment insurance in the relevant fiscal year, divided by the number of insurance-covered business establishments as of the end of the previous fiscal year.
 2. Exit rates according to the *Annual Report on Employment Insurance Programs* are the number of business establishments whose employment insurance coverage expired in the relevant fiscal year, divided by the number of insurance-covered business establishments as of the end of the previous fiscal year.
 3. Insurance-covered business establishments are the number of business establishments that are covered by labor insurance under an employment insurance (Article 5 of the Employment Insurance Act).

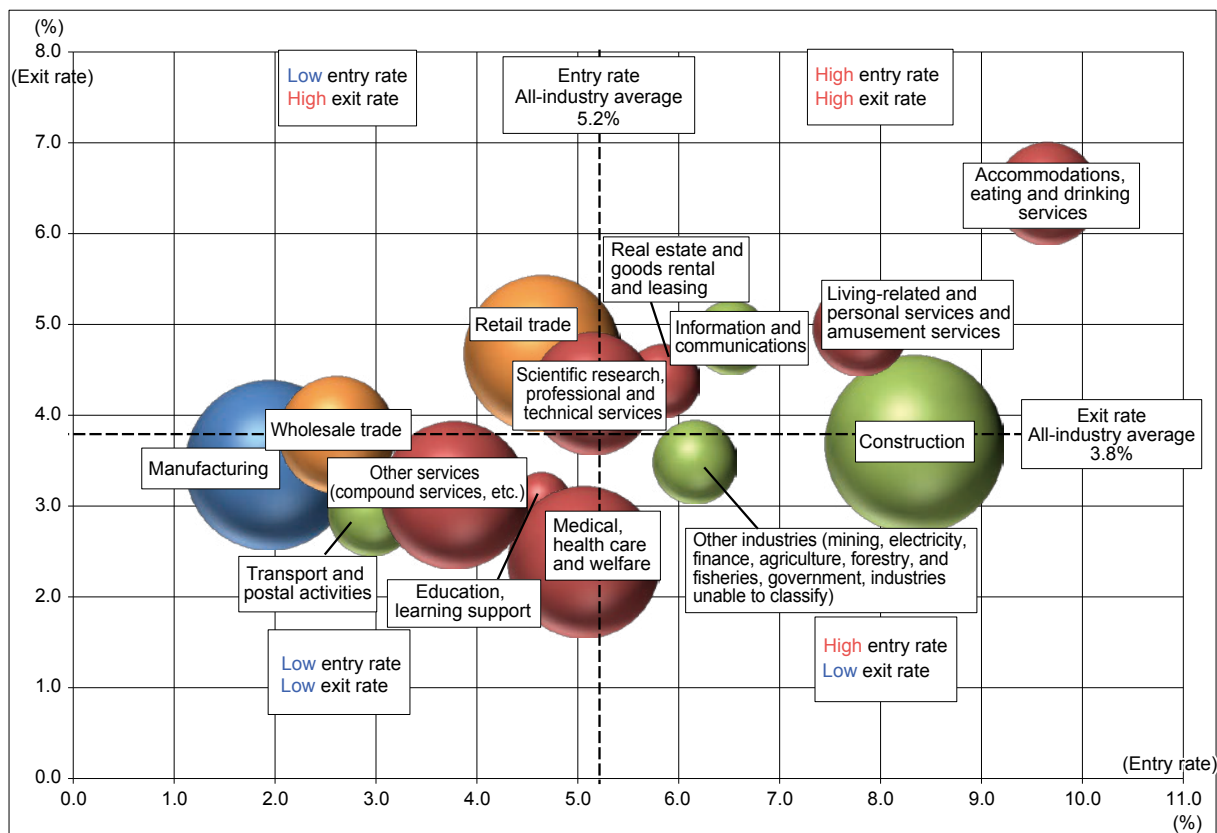
In fiscal 2015, entry rate was 5.2% and exit rate was 3.8%, but the rates differ according to industry, so let us examine the entry/exit rates of each industry. Fig. 1-2-9 shows the entry rates of each industry along the horizontal axis and exit rates along the vertical axis. The size of the circle for each industry indicates the number of insurance-covered business establishments in the industry.

With respect to entry rate, the manufacturing industries had the lowest rate at 1.9%, and largely drove down the overall entry rate, also with their large number of business establishments. On the other hand, the accommodations, eating and drinking services industry had the highest entry rate at 9.7%, followed by the construction industry and the living-related and personal services and amusement services industry. The accommodations, eating and drinking services industry not only had the highest entry rate, but also a certain number of business establishments. Similarly, the construction industry had the second highest entry rate and the largest number of business establishments. Thus, it could be said that these two

industries contributed to boosting the overall entry rate.

With respect to exit rate by industry, there was little difference among the industries. The medical, health care and welfare industry had the lowest exit rate at 2.4%, and contributed to lowering the overall exit rate. The accommodations, eating and drinking services industry had the highest exit rate at 6.4%, and drove up the overall exit rate. The manufacturing industries and construction industry, which greatly differed in their entry rates, had exit rates that were generally at the same level.

A comparison of entry and exit rates by industry shows that entry and exit rates both exceed the average in the accommodations, eating and drinking services industry and the living-related and personal services and amusement services industry, which also have a high turnover of business establishments, while the construction industry has a high entry rate and low exit rate, and the manufacturing industries and the wholesale trade industry have a low entry rate and a low exit rate.

Fig. 1-2-9 Distribution of entry and exit rates by industry (fiscal 2015)

Source: MHLW, *Annual Report on Employment Insurance Programs*.

- Notes:
1. Entry rates according to the *Annual Report on Employment Insurance Programs* are the number of business establishments that were newly covered by employment insurance in the relevant fiscal year, divided by the number of insurance-covered business establishments as of the end of the previous fiscal year.
 2. Exit rates according to the *Annual Report on Employment Insurance Programs* are the number of business establishments whose employment insurance coverage expired in the relevant fiscal year, divided by the number of insurance-covered business establishments as of the end of the previous fiscal year.
 3. Insurance-covered business establishments are the number of business establishments that are covered by labor insurance under an employment insurance (Article 5 of the Employment Insurance Act).

Next, a look at entry and exit rates by prefecture reveals that Okinawa has the highest entry rate, followed by Saitama, Chiba, Kanagawa and Fukuoka (Fig. 1-2-10). An existing study gives a number of factors that influence regional entry rates. They include demand-side factors such as the rates of increase in population and income; human capital factors such as the population age composition, the ratio of university graduates, and the ratio of specialists; and factors related to the industrial

composition of the region⁴⁾. In terms of industrial composition, Okinawa, which had the highest entry rate, had the largest ratio of businesses in the accommodations, eating and drinking services industry of all prefectures, indicating that the composition of businesses may have an influence on the entry rate of each prefecture. Exit rate was the highest in Shiga, followed by Kyoto, Fukuoka, Hokkaido and Chiba.

4) In Okamuro, Hiroyuki and Nobuo Kobayashi, "Analysis of the determining factors of entry rates based on regional data," municipal-level data is used to analyze the determining factors of entry rates of private business establishments in the latter half of the 1990s, and show that demand, expenses, human capital, capital procurement, industrial aggregation and structures, and other factors (enterprise size structures, access to transportation, public services) all have a significant influence on entry rates.

Fig. 1-2-10 Entry and exit rates by prefecture (fiscal 2015)

	Entry rate	Exit rate		Entry rate	Exit rate		Entry rate	Exit rate
Hokkaido	4.2%	4.3%	Ishikawa	4.3%	3.5%	Okayama	4.8%	3.7%
Aomori	3.6%	3.7%	Fukui	3.7%	3.3%	Hiroshima	4.4%	3.6%
Iwate	3.4%	3.4%	Yamanashi	4.7%	3.5%	Yamaguchi	4.1%	3.6%
Miyagi	5.3%	3.3%	Nagano	4.0%	4.0%	Tokushima	4.2%	2.9%
Akita	2.8%	3.5%	Gifu	4.6%	3.7%	Kagawa	4.3%	3.2%
Yamagata	3.4%	3.2%	Shizuoka	4.6%	3.9%	Ehime	4.5%	3.8%
Fukushima	5.3%	3.1%	Aichi	6.1%	4.0%	Kochi	4.1%	3.6%
Ibaraki	5.3%	3.3%	Mie	5.3%	3.6%	Fukuoka	6.1%	4.4%
Tochigi	4.4%	3.3%	Shiga	4.3%	4.9%	Saga	4.7%	3.6%
Gunma	5.1%	3.8%	Kyoto	4.7%	4.6%	Nagasaki	4.1%	3.6%
Saitama	6.8%	3.5%	Osaka	5.9%	3.6%	Kumamoto	5.3%	3.2%
Chiba	6.5%	4.3%	Hyogo	5.2%	4.2%	Oita	4.6%	4.0%
Tokyo	5.6%	3.7%	Nara	4.7%	4.3%	Miyazaki	4.8%	4.1%
Kanagawa	6.3%	4.1%	Wakayama	4.5%	3.1%	Kagoshima	4.3%	3.5%
Niigata	3.1%	3.4%	Tottori	4.2%	3.5%	Okinawa	7.0%	3.7%
Toyama	3.7%	3.5%	Shimane	3.3%	4.2%	Total	5.2%	3.8%

Source: MHLW, 2015 Annual Report on Employment Insurance Programs.

- Notes:
1. Entry rate = The number of business establishments that were newly covered by employment insurance in the relevant fiscal year, divided by the average number of insurance-covered business establishments in the previous fiscal year × 100
 2. Exit rate = The number of business establishments whose employment insurance coverage expired in the relevant fiscal year, divided by the average number of insurance-covered business establishments in the previous fiscal year × 100
 3. Insurance-covered business establishments are the number of business establishments that are covered by labor insurance under an employment insurance (Article 5 of the Employment Insurance Act).

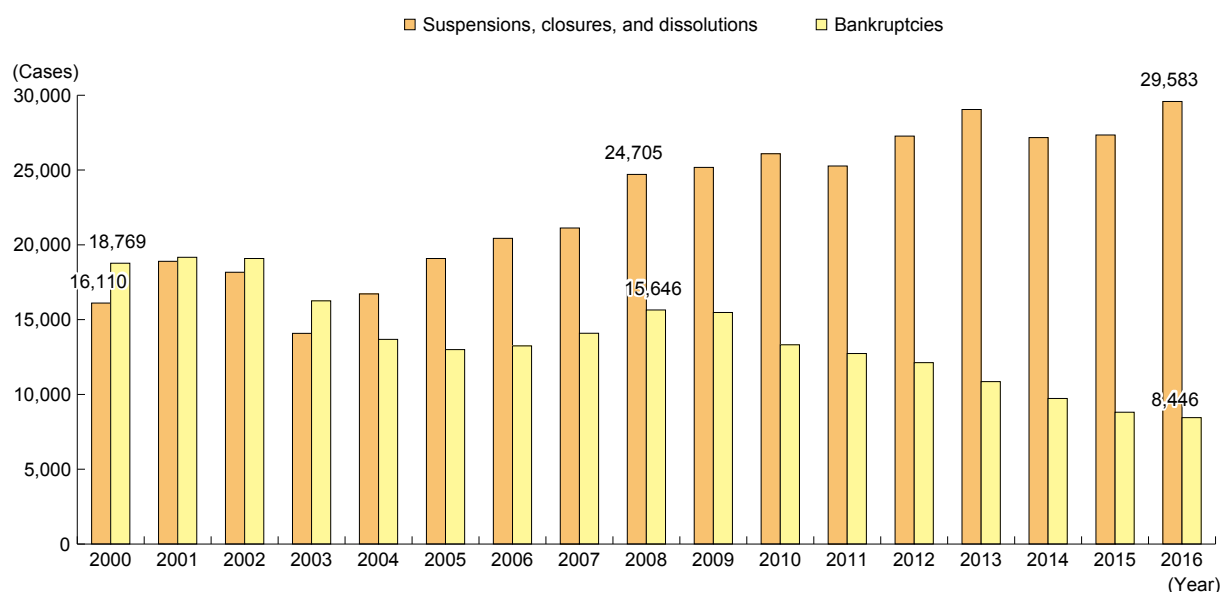
3. Present state of market exits

Up to here, we examined trends in market entries and exits using the *Economic Census* and the *Annual Report on Employment Insurance Programs*, but exit trends are in some ways difficult to assess from public statistics⁵⁾. For this reason, we shall examine the present state of exits using Tokyo Shoko Research's *Survey of Business Suspensions, Closures and Dissolutions*, which identifies and tabulates enterprises that have suspended business, closed or dissolved, from a database of 2.63 million

enterprises.

First, let us compare the yearly number of suspensions, closures and dissolutions with the number of bankruptcies. Bankruptcies peaked in 2008 and gradually declined thereafter, remaining below the 10,000 level for three consecutive years. Suspensions, closures and dissolutions, on the other hand, reached a record high in 2016, corresponding to nearly double the figure in 2000 (Fig. 1-2-11).

5) The *Economic Census for Business Frame* and *Business Activity* are implemented every two to three years, so it does not cover enterprises that have entered and exited the market in years between surveys. The *Annual Report on Employment Insurance Programs* is published every year, but provides statistics in business establishment units. Additionally, transfers of business establishments and merger of enterprises are categorized as exits in some cases.

Fig. 1-2-11 Number of suspensions, closures, dissolutions, and bankruptcies

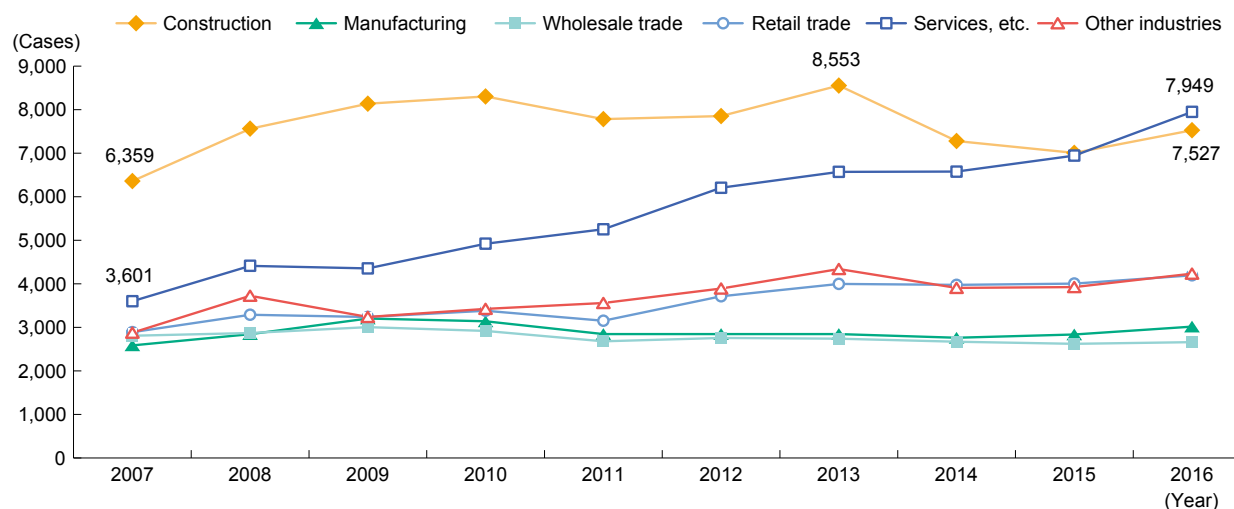
Source: Tokyo Shoko Research, Ltd., *2016 Survey of Business Suspensions, Closures and Dissolutions*.

- Notes:
1. Business suspension and closure refers to the termination of business with more assets than liabilities, without taking any particular procedures.
 2. Dissolution refers to the termination of business and the commencement of the necessary settlement procedures for extinguishing the corporate status of the enterprise. Such enterprises basically have more assets than liabilities, but they may be found to have a capital deficit after dissolution, in which case they are retabulated as a bankruptcy.
 3. Bankruptcy refers to a state where an enterprise has fallen into a state where it is unable to pay its debts and cannot continue engaging in economic activities. Voluntary liquidation (including suspension of transactions) is also categorized as a bankruptcy.

By industry, the construction industry had the largest number of business suspensions, closures and dissolutions during the period from 2007 to 2015, with the number still increasing in 2016 (Fig. 1-2-12). In 2016, however, the services, etc. industry had the largest number and double the number compared to ten years ago, owing to a continuous increase since 2007. The manufacturing industries and the wholesale trade industry remained unchanged, and the retail trade industry showed a slightly increasing trend.

In the services, etc. industry, a detailed look at the types of businesses that particularly increased compared to ten years ago shows that, with the exclusion of business types with special characteristics⁶⁾, there were increases in the numbers of clinics of medical practitioners (+335), eating places (+271), engineering and architectural services (+210), business consultants and pure holding companies (+186), and dental clinics (+169), among others.

6) NPOs not classified elsewhere (+1,090) and political organizations (+419) have been excluded.

Fig. 1-2-12 Numbers of business suspensions, closures and dissolutions by industry

Source: Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

Note: Other industries include the agriculture, forestry, fishery and mining industries, the finance and insurance industry, the real estate industry, the transport industry, and the information communication industry.

* Businesses with particularly large increases in the services, etc. industry (top ten businesses)

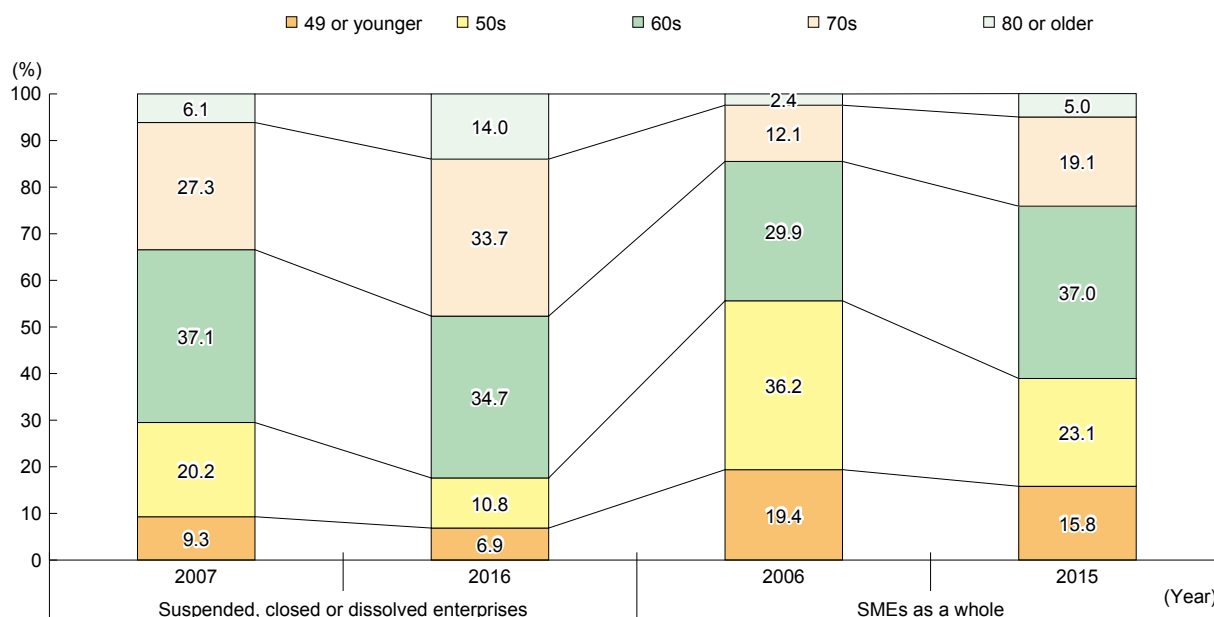
Middle classification	Small classification	2007	2016	Increases
Medical, health care and welfare	Clinics of medical practitioners	38	373	+335
Eating and drinking places	Eating places	172	443	+271
Scientific research, professional and technical services	Engineering and architectural services	297	507	+210
Services, n.e.c.	Business services, n.e.c.	174	371	+197
Scientific research, professional and technical services	Business consultants and pure holding companies	4	399	+186
Medical, health care and welfare	Dental clinics	213	173	+169
Scientific research, professional and technical services	Miscellaneous professional services	182	347	+165
Medical, health care and welfare	Welfare services for the aged and care services	2	194	+156
Electricity, gas, heat supply and water	Production, transmission and distribution of electricity	38	145	+143
Services, n.e.c.	Automobile maintenance services	156	265	+109

With regard to the ages of managers of suspended, closed or dissolved enterprises, managers were aged 60 or older in 82.4% of enterprises in 2016, and marked a record high rate. Compared to ten years ago, the ratio of managers between ages 70 and 79 and age 80 or older also increased, such that managers were 80 or older in 14.0% of enterprises, also marking a record high (Fig. 1-2-13). Meanwhile, the proportion of managers between ages 50 and 59 halved, and those aged 49 or younger declined

slightly, indicating the aging of managers in enterprises that suspended business, closed or dissolved within the past ten years.

The ages of SME managers as a whole⁷⁾ also showed a decline in the ratio of managers aged 59 and younger and an increase in the ratio of managers aged 60 and older. The volume zone has also shifted from the 50 to 59 age range to the 60 to 69 age range, as an indication that managers of SMEs as a whole are aging progressively.

7) The ages of SME managers here are based on a comparison between their ages in 2015 and ten years earlier in 2006, as 2015 is the latest year for which data is available at present.

Fig. 1-2-13 Changes in the composition ratio of the ages of managers of suspended, closed or dissolved enterprises

Source: Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

Next, let us examine the performance of suspended, closed or dissolved enterprises in terms of their profit rates before suspension or closure. Of the 84,091 suspensions, closures and dissolutions from 2013 to 2015, data on ordinary profit to sales ratio (hereinafter, profit ratio) immediately before closure⁸⁾ was available for 6,405 enterprises. Based on this data⁹⁾, a look at profit ratios before exit shows that 50.5% of enterprises exited the market in a surplus state, with a profit ratio of more than 0%, and that more than half the enterprises were in the black before exiting (Fig. 1-2-14). It also shows that 13.6% of enterprises had a profit ratio of 10% or more,

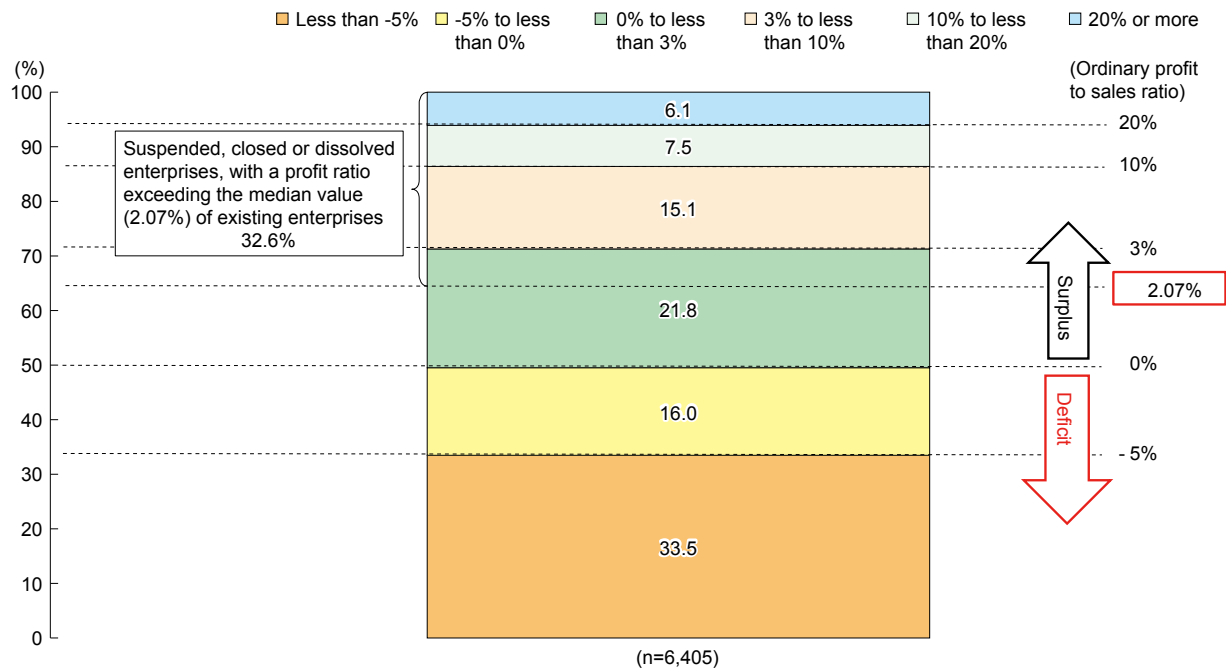
and 6.1% had a profit ratio of 20% or more, indicating that a certain ratio of enterprises had a high profit ratio before exiting.

Compared with continuing enterprises¹⁰⁾, whose median ordinary profit ratio was 2.07%, as much as 32.6% of suspended, closed or dissolved enterprises had a profit ratio that surpassed the median ordinary profit ratio of continuing enterprises. In other words, roughly 30% of enterprises exited the market even while having a profit ratio that surpassed that of the average continuing enterprise.

8) More specifically, the latest ordinary profit to sales ratio was used for enterprises whose ordinary profit to sales ratio was available for the exit year or the year before that. It should be noted that when combining enterprises whose profit rates are not available, the ratio of enterprises that exited the market in a surplus state may fall.

9) In subsequent analyses, “agricultural, forestry and fishery cooperatives,” “NPOs not elsewhere classified,” “political organizations,” “assembly halls,” “business cooperatives,” “economic organizations,” “academic and cultural organizations,” and “slaughterhouses” (total 328 businesses) are excluded from among the 6,733 enterprises whose ordinary profit to sales ratio for the exit year or the year before that is available among enterprises that suspended business, closed or dissolved during the period from 2013 to 2015, from the perspective of eliminating special organizations that are not enterprises.

10) Continuing enterprises here refer to enterprises contained in the database during the period from 2013 to 2015, and the median ordinary profit ratio of continuing enterprises refers to the ordinary profit to sales ratio of the enterprise that comes in the middle when listing the enterprises contained in the database in order of the lowest profit ratio at each point in time.

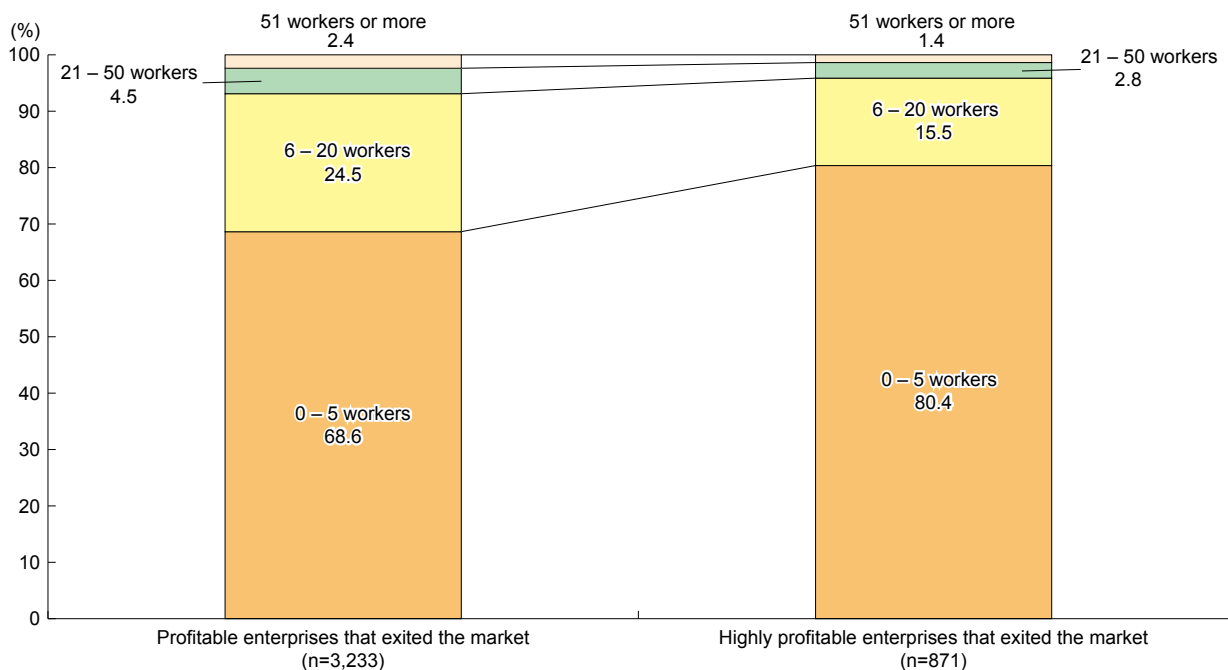
Fig. 1-2-14 Ordinary profit to sales ratio of suspended, closed or dissolved enterprises

Source: Recompiled from Tokyo Shoko Research, Ltd., *2016 Survey of Business Suspensions, Closures and Dissolutions*.

Above, we saw that even among suspended, closed or dissolved enterprises, a certain number of enterprises were in the black or had a high profit before exiting the market. Below, we will examine the characteristics of such enterprises.

First, let us compare enterprises that exited the market with a positive profit ratio before suspension, closure or dissolution (hereinafter, profitable enterprises) and enterprises that exited the market with a profit ratio of 10% or more (hereinafter, highly profitable enterprises),

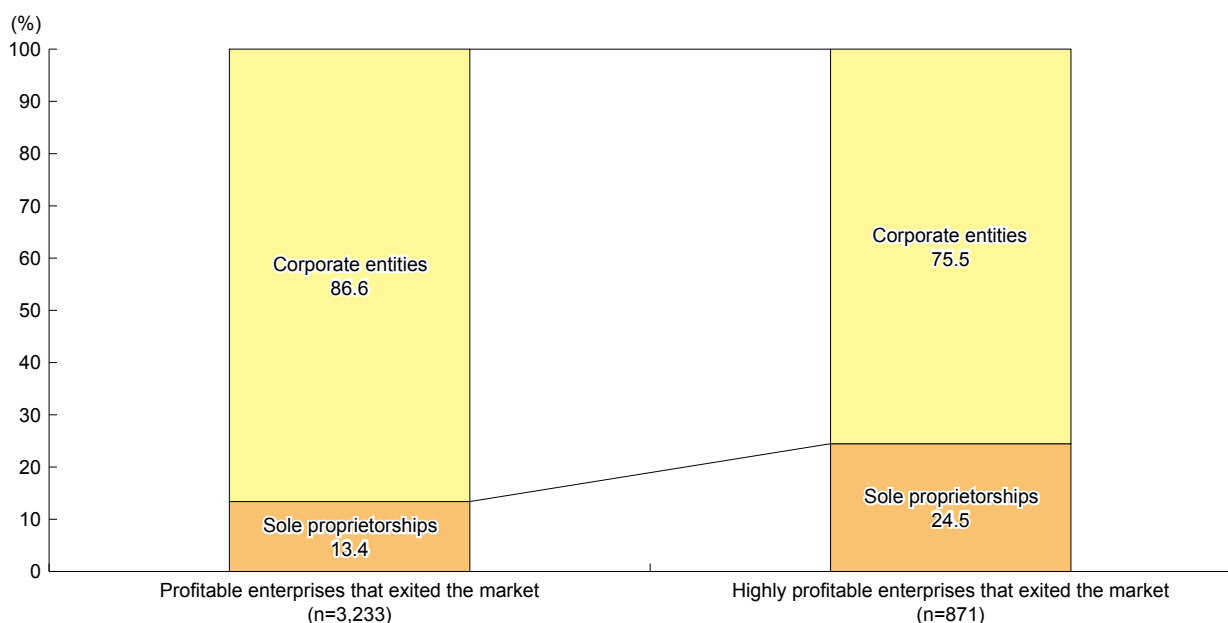
in terms of their number of workers. Of all profitable enterprises, roughly 69% were small enterprises with five or less workers, and roughly 93% were SMEs with 20 or less workers. Of all highly profitable enterprises, roughly 80% were small enterprises with five or less workers, and roughly 96% were SMEs with 20 or less workers. This shows that profitable and highly profitable enterprises that exited the market were mostly small-scale enterprises (Fig. 1-2-15).

Fig. 1-2-15 Enterprise size of suspended, closed or dissolved enterprises (profitable and highly profitable enterprises)

Source: Recompiled from Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

In terms of management organization, sole proprietorships made up roughly 13% of profitable enterprises and roughly 25% of highly profitable

enterprises that exited the market. Highly profitable enterprises had a higher ratio of sole proprietorships (Fig. 1-2-16).

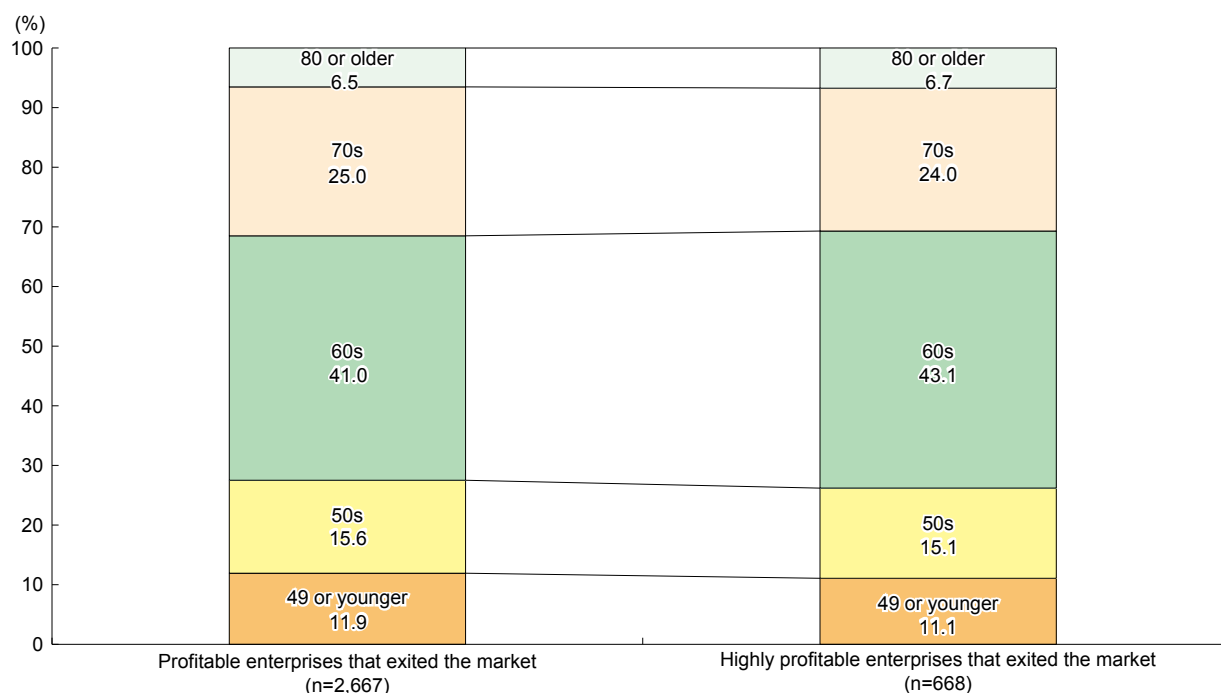
Fig. 1-2-16 Management organization of suspended, closed or dissolved enterprises (profitable and highly profitable enterprises)

Source: Recompiled from Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

In terms of managers' ages, there was hardly any difference between profitable and highly profitable enterprises that exited the market. The largest ratio of

managers was in the 60s, followed by the 70s, such that managers aged 60 or older accounted for 70% of all managers (Fig. 1-2-17).

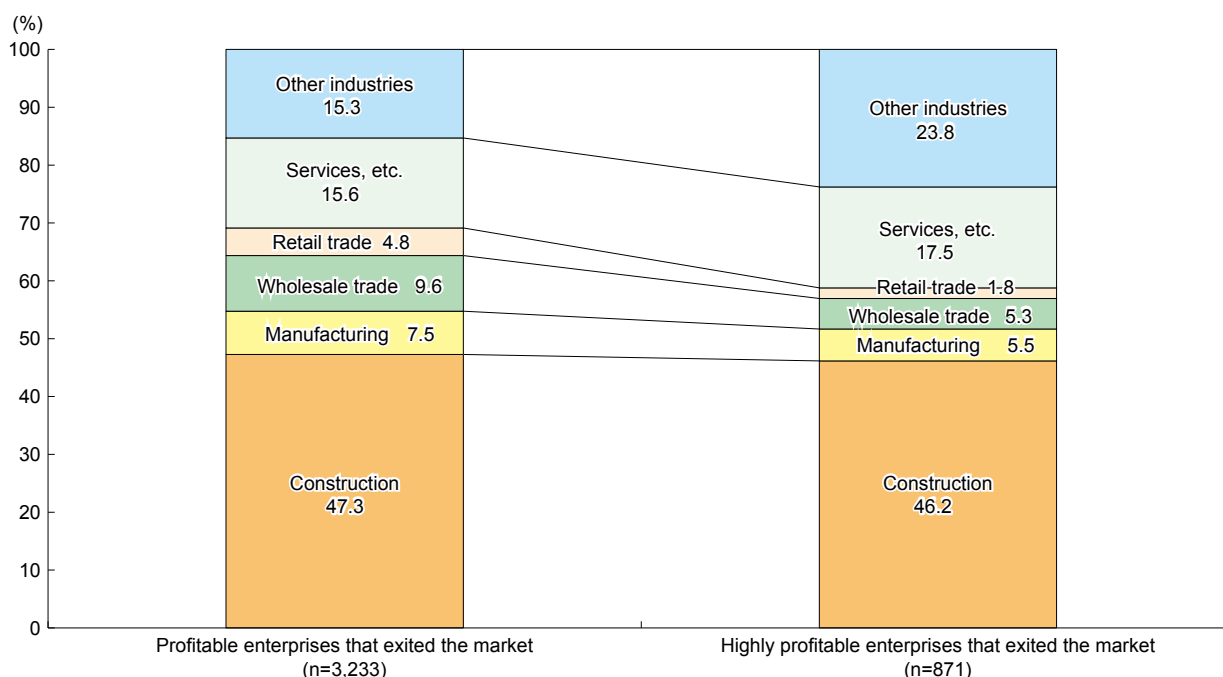
Fig. 1-2-17 Manager's age in suspended, closed or dissolved enterprises (profitable and highly profitable enterprises)



Source: Recompiled from Tokyo Shoko Research, Ltd., *2016 Survey of Business Suspensions, Closures and Dissolutions*.

Lastly, in terms of industry, roughly half of both profitable and highly profitable enterprises that exited the market was in the construction industry, followed by the services, etc. industry. This was followed by the wholesale trade industry for profitable enterprises that exited the market, and by the manufacturing industries for highly profitable enterprises. A comparison of the two groups of

enterprises shows that highly profitable enterprises had a higher rate of exits in other industries, which includes the information communication industry and the finance and insurance industry, and the services, etc., and a lower rate of exits in the manufacturing, retail trade, and wholesale trade industries (Fig. 1-2-18).

Fig. 1-2-18 Industrial classification of suspended, closed or dissolved enterprises (profitable and highly profitable enterprises)

Source: Recompiled from Tokyo Shoko Research, Ltd., *2016 Survey of Business Suspensions, Closures and Dissolutions*.

Highly profitable enterprises that exited the market are characterized by a high ratio of enterprises with a small number of workers, a relatively high ratio of sole proprietorships, and a relatively high ratio of enterprises in other industries and the services, etc. industry. To examine in detail the industrial classification of these enterprises, highly profitable enterprises that exited the market in the services industry and other industries have been listed in order of small classification industries with the largest number of enterprises, with the result that in the services industry, the largest number of enterprises was in engineering and architectural services, and in other industries, the largest number were financial products transaction dealers (Fig. 1-2-19).

The reasons for market exits are unknown, but the top-ranking industries, namely engineering and architectural

services, business consultants and pure holding companies, clinics of medical practitioners, financial products transaction dealers, and sales agents of buildings and houses and land subdividers and developers, are industries in which managers and employees mostly engage in operations that require a certain qualification or skill. This characteristic may have made business succession difficult.

In addition to the above, business dissolutions that are the result of a large enterprise reorganizing its subsidiaries may also be included among market exits. Otherwise, some SMEs that exited the market even while having a certain profit ratio and a certain number of employees may have chosen to exit the market due to the aging of their managers or the absence of successors.

Fig. 1-2-19 Breakdown of the industries of highly profitable enterprises that exited the market (top 5 small classification industries)

Services, etc. (n=152)		Other industries (n=207)	
Engineering and architectural services	27	Financial products transaction dealers	38
Business services, n.e.c.	21	Sales agents of buildings and houses and land subdividers and developers	37
Business consultants and pure holding companies	15	Real estate lessors	20
Clinics of medical practitioners	11	Computer programming and other software services	16
Miscellaneous professional services	10	Real estate managers	13

Source: Recompiled from Tokyo Shoko Research, Ltd., *Survey of Business Suspensions, Closures and Dissolutions*.

Section 2 Relationship between the life cycle and productivity of SMEs and micro-businesses

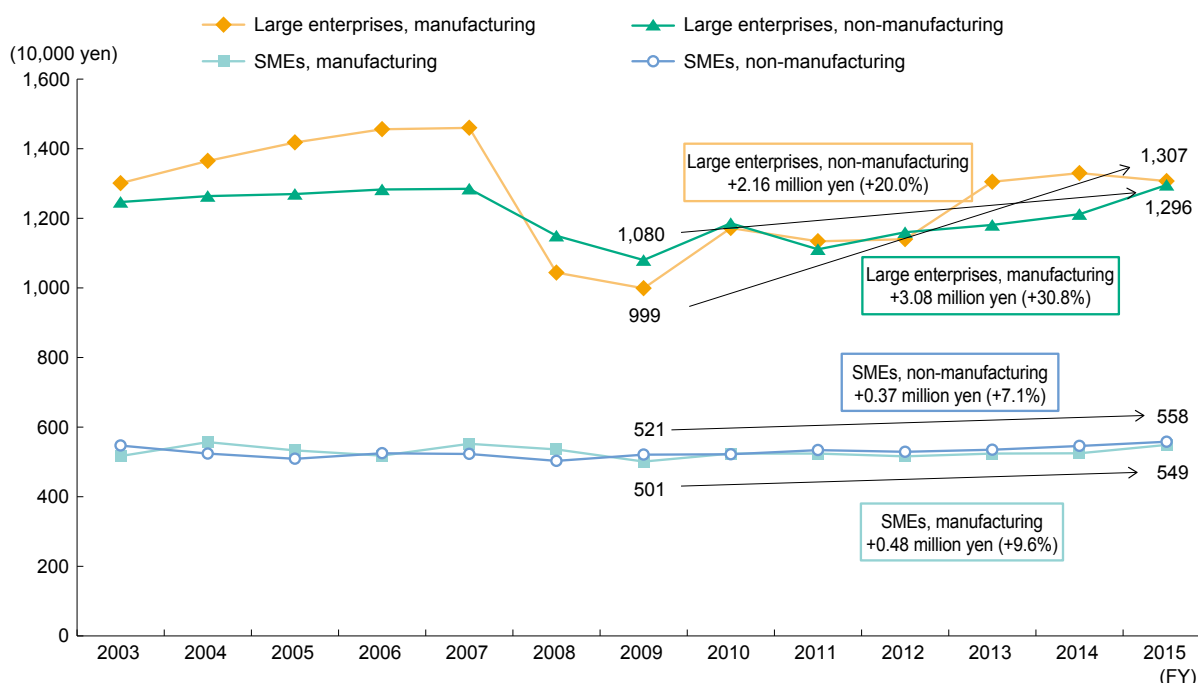
1. Labor productivity in large enterprises and SMEs and micro-businesses

Up to here, we have examined the present state of market entries and exits by enterprises, but in this section, we shall analyze the impacts of such entries and exits on overall productivity in Japan.

First, added value per capita (labor productivity) among large enterprises had been gradually increasing from fiscal 2003 to 2007, and dropped in fiscal 2008 and

2009 due to impacts of the Lehman crisis, but returned to an increase thereafter (Fig. 1-2-20). On the other hand, labor productivity in SMEs remained virtually unchanged over the past 13 years, and a large difference in labor productivity has emerged between large enterprises and SMEs.

Fig. 1-2-20 Added value per employee (labor productivity), by enterprise size

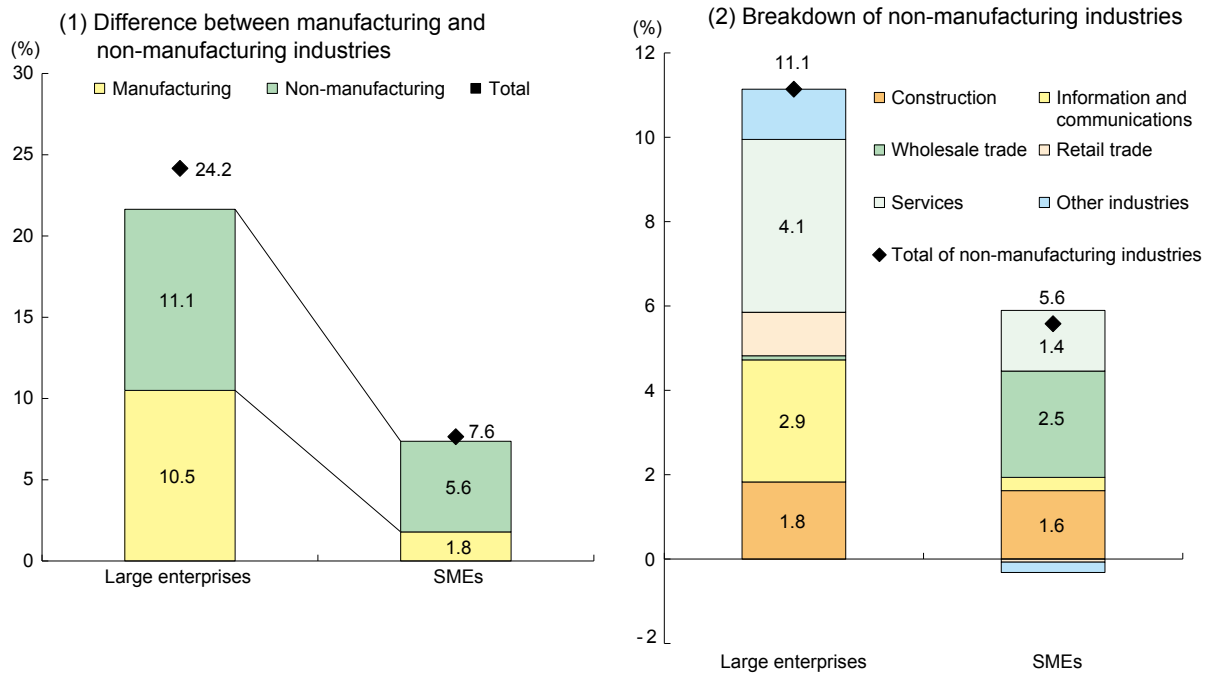


Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of less than ¥100 million.

Let us compare labor productivities in fiscal 2009, which marked the lowest level in recent years, and fiscal 2015, and examine which industries had an effect on increasing overall labor productivity, by separating the industries into manufacturing and non-manufacturing industries. Among large enterprises, labor productivity in both manufacturing and non-manufacturing industries increased at a similar rate. Among SMEs, however, the

increase was small in both industries, with barely an increase in SME manufacturing industries (Fig. 1-2-21). A focus on the non-manufacturing industries shows that among large enterprises, the services industry contributed to driving up overall labor productivity of non-manufacturing industries, but among SMEs, the increase in labor productivity in the services industry was not as large.

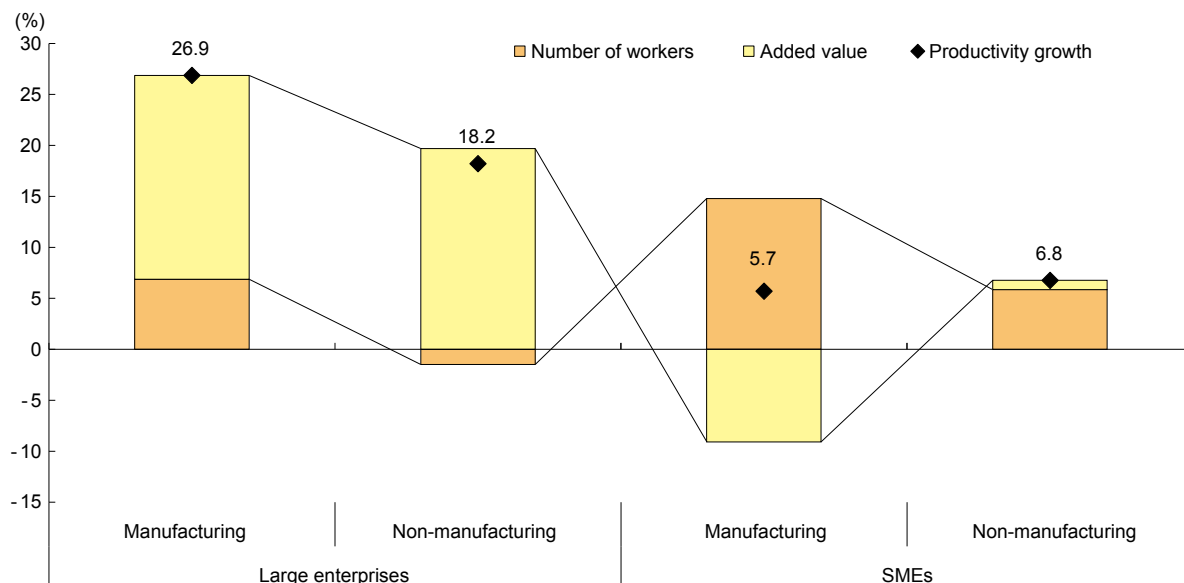
Fig. 1-2-21 Breakdown of labor productivity growth by industry (fiscal 2009 – 2015)

Source: Prepared based on MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

- Notes:
1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of less than ¥100 million.
 2. The rate of change of each factor is calculated by logarithmic difference to indicate degree of contribution, so the total does not necessarily equal the overall rate of increase in productivity.

Changes in labor productivity can be broken down into two factors: the increase or decrease in added value, and the increase or decrease in number of workers. When the margin of increase in labor productivity is broken down into factors caused by an increase in added value and factors caused by a decrease in number of workers, we see that among large enterprises, both manufacturing and non-manufacturing industries largely increased their added

value, but among SMEs, the added value of manufacturing industries declined, and that of non-manufacturing showed an increase but not as large as large enterprises. On the other hand, when we look at labor productivity in terms of the number of workers, we see that the decline in the number of workers in manufacturing industries has boosted labor productivity (Fig. 1-2-22).

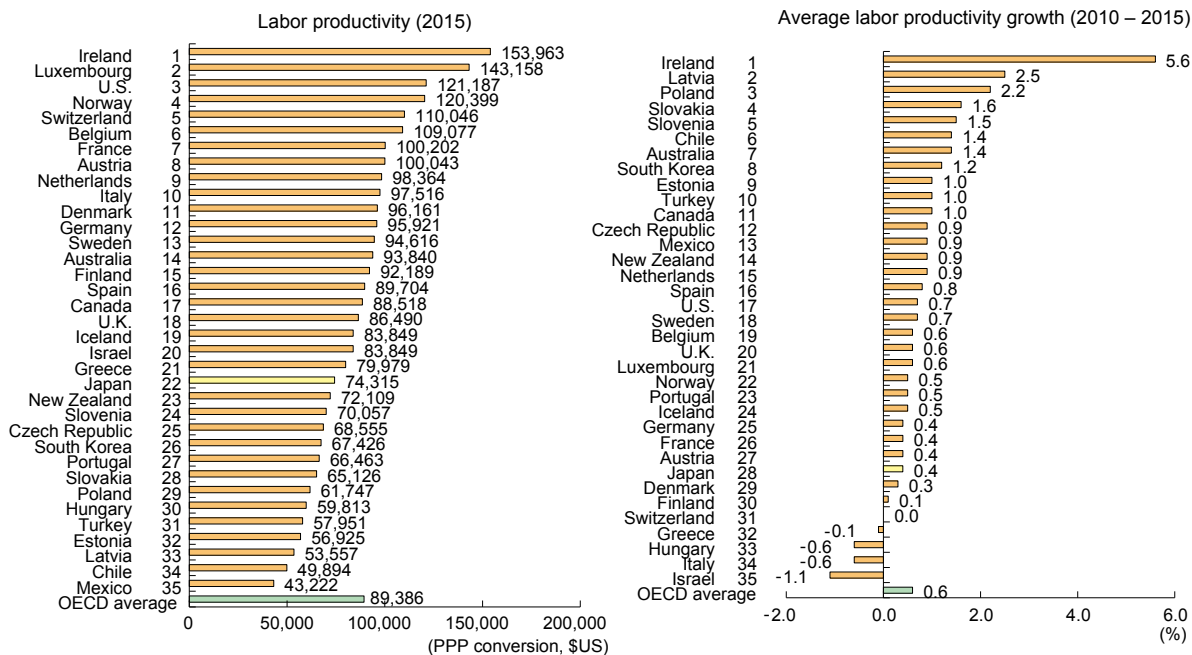
Fig. 1-2-22 Factors affecting labor productivity growth, by industry and enterprise size (fiscal 2009 – 2015)

Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

In an international comparison of labor productivity, Japan ranked a low 22 among 35 OECD countries in

2015. At 0.4%, the rate of increase in Japan also ranked a low 28th (Fig. 1-2-23).

Fig. 1-2-23 Labor productivity of OECD member countries

Source: Japan Productivity Center, *Productivity Trends in Japan 2016*.

Notes: 1. Overall labor productivity is calculated as GDP / number of employees and converted to US dollars using purchasing power parity (PPP).
2. The necessary data for the above have been supplemented mainly by OECD statistical data and data from the statistics bureau in each country.

2. Change factors of labor productivity and total factor productivity (TFP)

Up to here, we analyzed the present state of market entries and exits and the productivity of enterprises in Japan. From here, we will examine the impacts of trends in the components of the life cycle of enterprises, such as entries, growth and expansion, bankruptcy and exits, on the productivity of SMEs in Japan as a whole, based on the “Project concerning the analysis of SME revitalization,” a project implemented by the Research Institute of Economy, Trade and Industry on commission by the SME Agency¹¹⁾. In this analysis, the rates of increase in the productivity of SMEs are examined in terms of three separate periods, from 2003 to 2007 (period 1), from 2007 to 2009 (period 2), and from 2009 to 2013 (period 3), using financial data of client SMEs which CRD Association has received from its members (credit guarantee associations and financial institutions), and breaking them down into contributing factors, such as changes in the productivity level of continuing enterprises (hereinafter, internal effect), changes in the market share of continuing enterprises (hereinafter, redistribution effect), market entries by new enterprises (hereinafter, entry effect), market exits by bankrupt enterprises (hereinafter, bankruptcy effect), market exits by closed enterprises (hereinafter, closure effect), and changes in industry by continuing enterprises (hereinafter, industry change effect)¹²⁾.

In this analysis, labor productivity and total factor productivity (TFP) are used as indicators of SME productivity. Labor productivity is a quantitative expression of how efficiently added values were generated per working hour. TFP is the total contribution of all factors to production that cannot be measured by the input of production elements such as capital and labor.

First, a look at labor productivity shows a 0.9% increase in period 1, a 1.8% decrease in period 2, and a 1.0% increase in period 3 (Fig. 1-2-24). In period 2, it dropped to a largely negative level due to impacts of the Lehman crisis, but showed a steady recovery in period 3, at a rate surpassing that before the Lehman crisis. In terms of the contribution of each effect in periods 1 and 3, the internal effect was the largest factor that boosted labor productivity, and the redistribution effect was the largest factor that drove down labor productivity. There were no changes in the positive/negative status of each effect through two periods, but the slight improvement in the redistribution effect and entry effect contributed to increasing the overall increase in labor productivity. At the same time, the internal effect decreased while remaining in positive territory, and labor productivity growth also decreased in continuing enterprises.

Next, let us look at TFP. TFP increased 0.5% in period 1, decreased 1.0% in period 2, and increased 0.2% in period 3 (Fig. 1-2-24). As with labor productivity, TFP growth rate dropped to a significant negative level in period 2 due to impacts of the Lehman crisis and recovered in period 3, but has yet to return to the level of period 1. In terms of the contribution of each effect in periods 1 and 3, the redistribution effect was the largest factor that boosted TFP, and the closure effect was the largest factor that drove it down. From period 1 to 3, the redistribution effect increased its positive margin, and the bankruptcy effect decreased its negative margin. This contributed to boosting TFP, but overall TFP growth rate declined as a result of the internal effect slipping into negative territory, and to entry effect decreasing its positive margin and the

11) Analysis conducted by Kenta Ikeuchi, Young Gak Kim, Hyeog Ug Kwon and Kyoji Fukao. See Appendix note 1-2-1 for details.

12) The definition of each type of enterprise in this section is as follows.

Continuing enterprise:

An enterprise for which data for both the reference year and comparison year exist, and that has not been verified as having fallen into business failure (neither de facto bankruptcy, bankruptcy, nor subrogation has occurred before the comparison year).

Entering enterprise:

Among enterprises for which data for the comparison year exists but data for the reference year does not, an enterprise that has been established within the three years preceding the reference year (e.g.: enterprises that newly entered the market during 2009-2013 are enterprises that have been established after 2006).

Exiting enterprise:

Among enterprises for which data for the reference year exists but data for the comparison year does not, an enterprise that does not fall under either enterprises that have shifted to a large enterprise or enterprises that have repaid their debts, as described below.

- Enterprises that have shifted to a large enterprise: Enterprises whose number of workers or amount of capital at the time of exit predicted using a regression model surpasses the requirements of SMEs (excluded from the analysis).
- Enterprises that have repaid their debts: Enterprises whose outstanding debt at the time of exit predicted using a regression model is below 0 (excluded from the analysis).

Bankrupt enterprise:

Among exiting enterprises, an enterprise that has fallen in de facto bankruptcy, bankruptcy or subrogation.

Closed enterprise:

Among exiting enterprises, an enterprise that does not fall under the conditions of a bankrupt enterprise (enterprise that has not fallen into de facto bankruptcy, bankruptcy or subrogation). Due to data constraints in this analysis, enterprises that relocate their head office, change their corporate name, achieve a growth surpassing that which is predicted by regression model, or become a subsidiary of another enterprise through M&A, are regarded as closed enterprises.

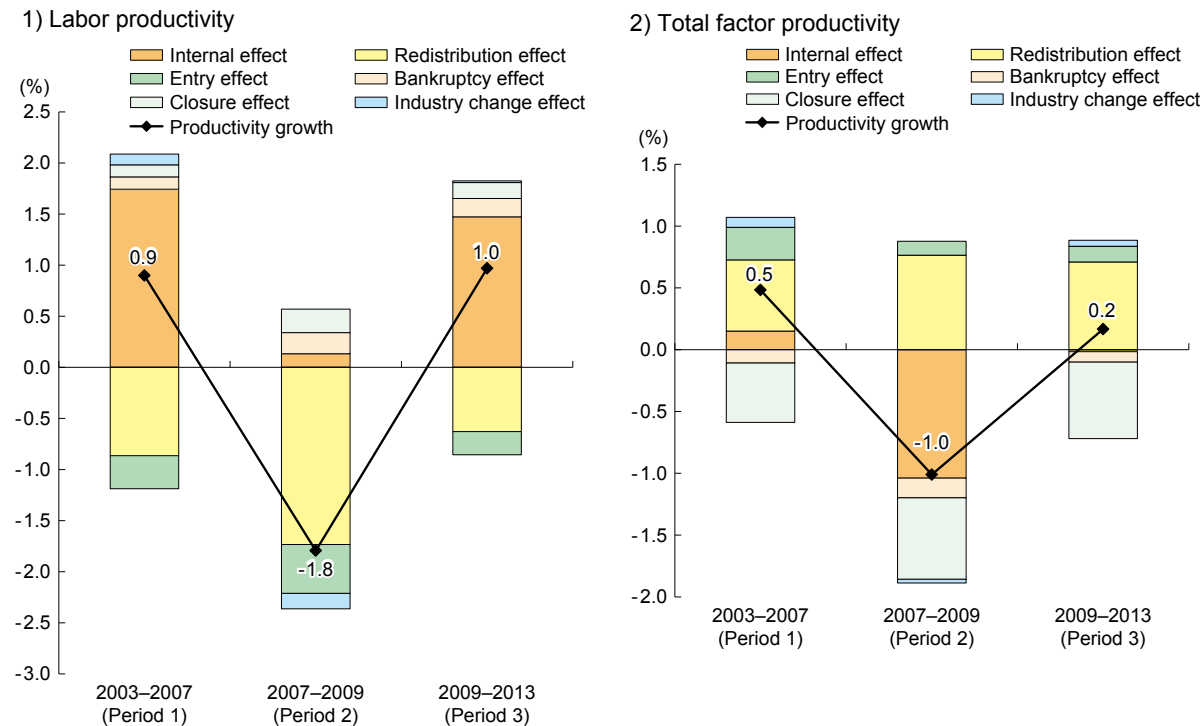
Industry changed enterprises:

Among continuing enterprises, an enterprise whose industry classification (JIP industrial classification) has changed from the reference year to the comparison year.

closure effect increasing its negative margin. The industry change effect maintained its slightly positive level through two periods, and enterprises that succeeded in changing

industries contributed to pushing up TFP growth rate in SMEs as a whole.

Fig. 1-2-24 Factors affecting the growth rate of labor productivity and total factor productivity (TFP)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.
Note: The growth rates of labor productivity and TFP are the growth in labor productivity and TFP from the reference year to the comparison year in each period converted to a yearly average growth rate for each period.

Thus far, we examined the growth rates of labor productivity and TFP in SMEs over three periods, and could say that fundamentally, “productivity growth = TFP growth + rate of capital redistribution × rate of increase in capital equipment ratio¹³⁾.” With respect to internal effect, TFP hovered at a negative level after period 2, but labor productivity gradually returned to the positive level of period 1. Behind this was the increase in capital equipment

ratio by continuing enterprises investing in machines and facilities, but from the perspective of increasing medium to long-term productivity, it is important to TFP to show a steady increase. Thus, we shall focus on TFP below, and compare and analyze the cause of change in TFP growth by enterprise size and industry, while also analyzing in detail the characteristics of SMEs that produce each effect.

3. Comparison of TFP change factors by enterprise size

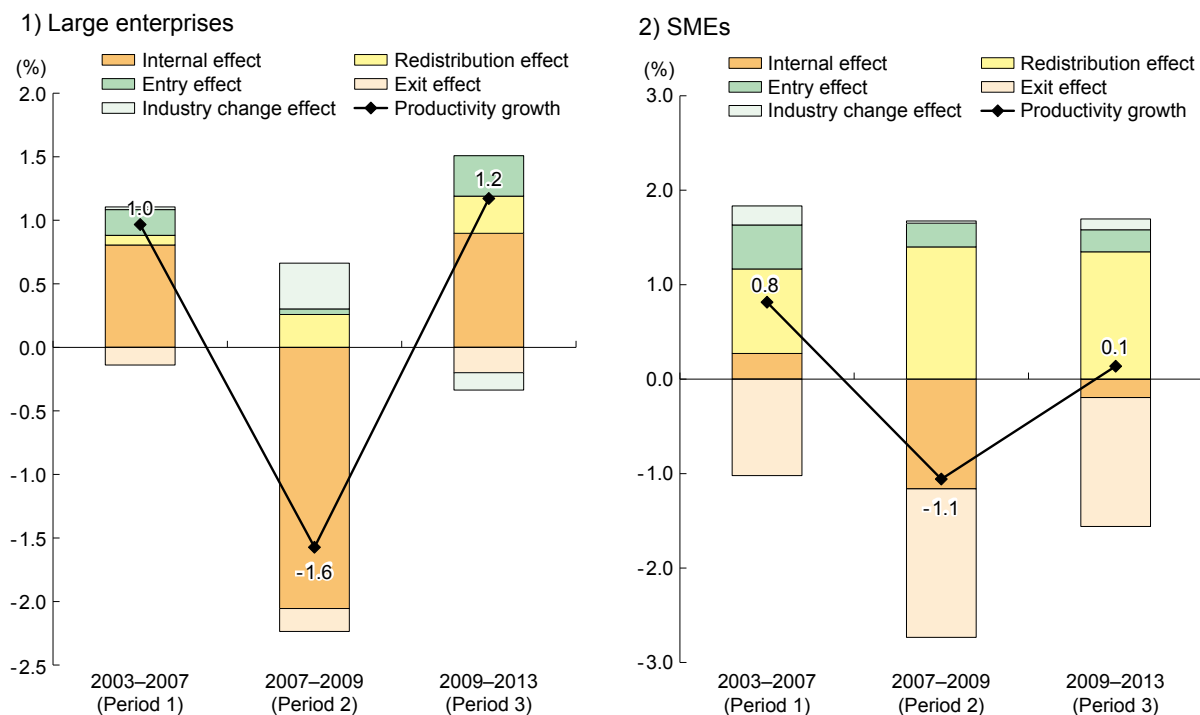
First, we shall compare and analyze TFP change factors in large enterprises and SMEs through periods 1 to 3. TFP growth in large enterprises was measured using METI’s *Basic Survey of Japanese Business Structure and Activities*. For SMEs, it was measured using data provided by CRD Association as in the previous item, but only industries that correspond to the *Basic Survey of Japanese Business Structure and Activities* were analyzed, to allow comparisons with large enterprises. Additionally, the impact of both large enterprises and SMEs exiting the market was analyzed as an “exit effect” without distinguishing whether they exited due to bankruptcy or business closure¹⁴⁾.

TFP growth was higher in large enterprises than SMEs in periods 1 and 3. In large enterprises, it dropped to a largely negative level in period 2 due to the impacts of the

Lehman crisis, but achieved a steady recovery in period 3 to a growth rate surpassing that before the Lehman crisis. In SMEs, however, TFP growth did not recover as well (Fig. 1-2-25). In terms of the contribution of each effect in periods 1 and 3, the internal effect in large enterprises and the redistribution effect in SMEs largely contributed to boosting TFP, while the exit effect largely contributed to pushing down TFP in both large enterprises and SMEs. The progress of recovery from period 1 to 3 differed between large enterprises and SMEs, such that in large enterprises, the internal effect, entry effect and redistribution effect showed an increase in positive margin, while in SMEs, the internal effect dipped to a negative level, the entry effect decreased its positive margin, and the exit effect increased its negative margin, with only the redistribution effect increasing its positive margin.

13) Capital equipment ratio refers to capital stock per working hour, and expresses the degree of investment in machines and facilities.

14) The analysis of large enterprises (using the *Basic Survey of Japanese Business Structure and Activities*) differs from the analysis of SMEs (using data provided by the CRD Association) in that it cannot distinguish between bankruptcy and closure among exiting enterprises. Therefore, for consistency between the two analyses, the distinction between bankrupt enterprises and closure enterprises was eliminated for both large enterprises and SMEs and treated as exiting enterprises. Additionally, among entering enterprises, the analysis of large enterprises was not restricted by year of establishment (the analysis of SMEs was restricted to enterprises that were established within three preceding years).

Fig. 1-2-25 Factors affecting TFP growth (large enterprises and SMEs)

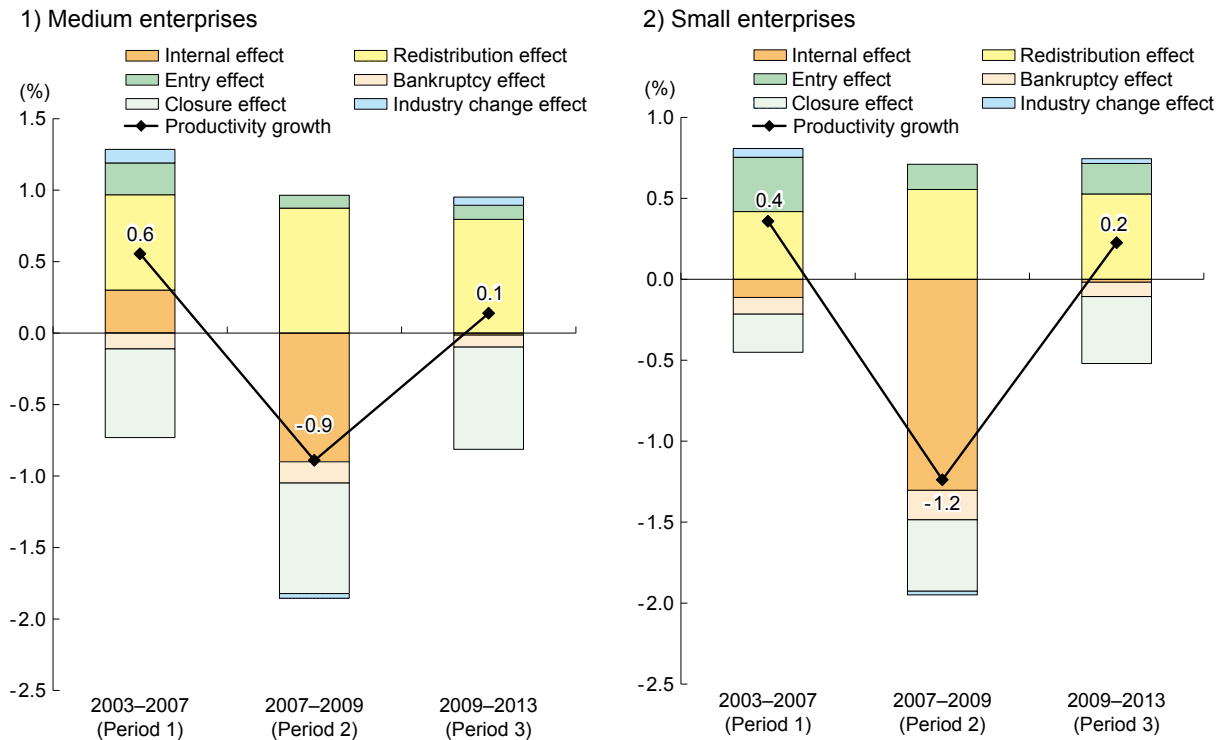
Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

- Notes:
1. TFP growth is the increase in TFP from the reference year to comparison year in each period converted to an annual average growth for each period.
 2. The TFP of large enterprises was measured using METI's *Survey of Japanese Business Structure and Activities*.
 3. The TFP of SMEs was measured using data provided by CRD Association, but only industries that correspond to the *Survey of Japanese Business Structure and Activities* were analyzed, to allow comparisons with large enterprises.

Next, changes in TFP growth from periods 1 to 3 will be compared and analyzed between medium and small enterprises. As with the previous item, the TFP of medium and small enterprises was measured using data provided by CRD Association, but bankruptcies and closures were distinguished from each other (Fig. 1-2-26).

TFP growth was higher in medium enterprises than small enterprises in period 1, but higher in small enterprises in period 3. Nevertheless, in both groups of enterprises, TFP dropped to a low negative level in period 2 due to the impacts of the Lehman crisis, recovered in period 3, but has yet to reach the growth rate of period 1. In terms of the contribution of each effect in periods 1 and 3, the redistribution effect contributed the most to pushing up TFP, and the closure effect contributed the

most to pushing it down in both periods in both medium and small enterprises. Additionally, from periods 1 to 3, the redistribution effect expanded its positive margin, the entry effect decreased its positive margin, and the closure effect expanded its negative margin in both medium and small enterprises, but a difference was seen regarding the internal effect. In small enterprises, the internal effect decreased its negative margin from period 1 to 3, but in medium enterprises, it dropped from a relatively high positive level to the negative. It could be said that the stagnation of productivity in continuing medium enterprises from periods 1 to 3 caused internal effect to drop to the negative for SMEs as a whole and prevented TFP from increasing.

Fig. 1-2-26 Factors affecting changes in TFP growth (medium and small enterprises)

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: TFP growth is the increase in TFP from the reference year to comparison year in each period converted to an annual average growth for each period.

4. Comparison of TFP change factors by industry

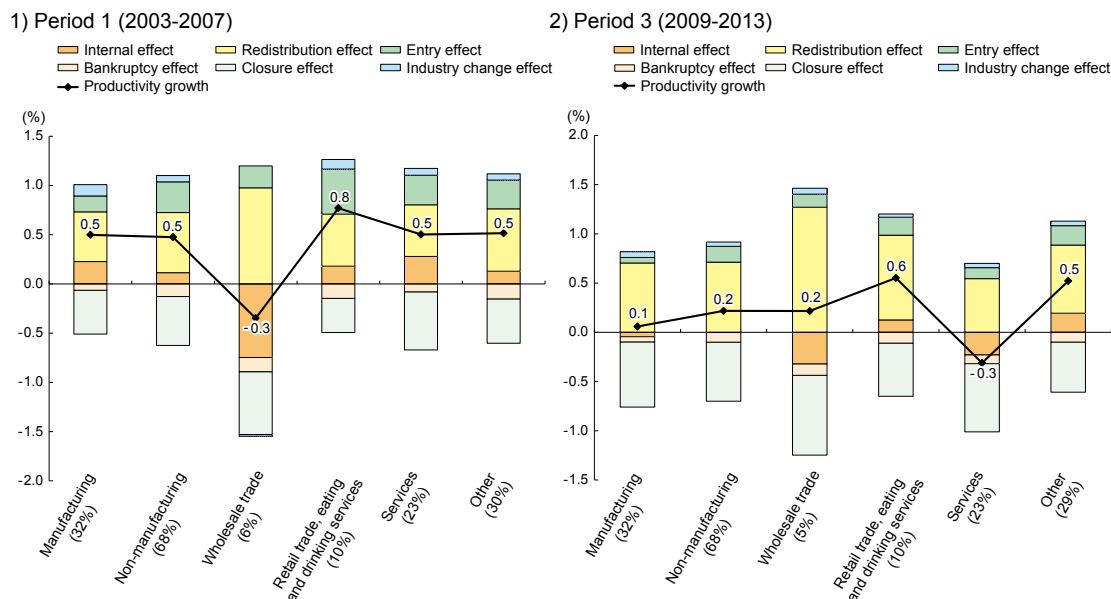
Here, we shall compare and analyze TFP change factors from periods 1 to 3 by industry.

First, when TFP change factors are analyzed using the industrial classification based on the Small and Medium-sized Enterprise Basic Act, we see that TFP growth was about the same in both the manufacturing and non-manufacturing industries in period 1, but higher in the non-manufacturing industries in period 3 (Fig. 1-2-27). TFP growth slowed down from period 1 to 3 in both the manufacturing and non-manufacturing industries, but the drop seen in period 3 was larger in the manufacturing industries. This is attributed to the relatively large shift of the internal effect from positive to negative

in the manufacturing industries and the large increase in the negative margin of the closure effect also in the manufacturing industries. Ikeuchi, Kim, Kwon and Fukao (2013) point out that after the 1990s, the decline in the spillover effect¹⁵⁾ of the R&D efforts of large enterprises onto SME manufacturing industries may have caused the drop in the internal effect in SME manufacturing enterprises¹⁶⁾. Since investment in R&D by large enterprises lagged after 2009, the same phenomenon may have caused the internal effect in SME manufacturing industries to decline also after the Lehman crisis (Fig. 1-2-28).

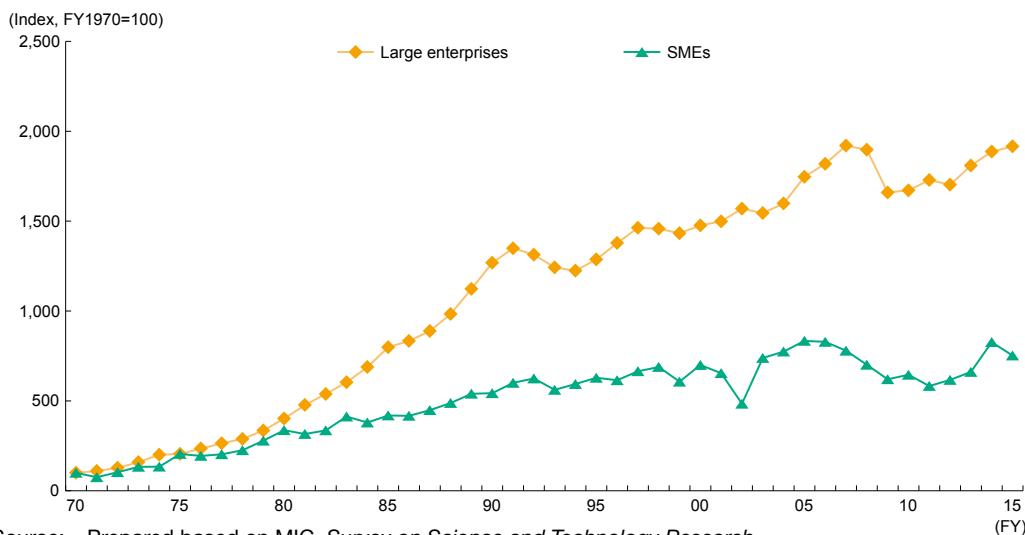
15) Spillover effect is the sharing of the technologies and knowledge cultivated through research and development by large enterprises with SMEs through business transactions.

16) "Productivity dynamics and R&D spillovers in the Japanese manufacturing industry: An empirical analysis based on micro-level data" (Kenta Ikeuchi, Young Gak Kim, Hyeog Ug Kwon and Kyoji Fukao, RIETI Discussion Paper Series 13-J-036, 2013).

Fig. 1-2-27 Factors affecting changes in TFP growth (industrial classification based on the Small and Medium-sized Enterprise Basic Act)

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

- Notes:
- TFP growth is the increase in TFP from the reference year to comparison year in each period converted to an annual average growth for each period.
 - The parentheses () under the names of each industry show the average ratio of the gross output of each industry to the total of all industries. The figures are rounded off to the nearest whole number. For more information on gross output, see Appended note 1-2-1.

Fig. 1-2-28 R&D expenses in manufacturing enterprises (large enterprises and SMEs)

Source: Prepared based on MIC, *Survey on Science and Technology Research*.

- Notes:
- Enterprises with 1 to 299 employees are classified as SMEs, and enterprises with 300 or more employees are classified as large enterprises.
 - R&D expenses are the sum of R&D expenses for internal use and R&D expenses for external use.
 - The figures are index values when FY1970 is given a value of 100.

The reason why TFP growth in the non-manufacturing industries dropped from period 1 to 3 is mainly because TFP growth in the services industry, which accounts for a large share, dropped to a negative over these periods. Let us analyze this fall in the services industry using the large industrial classification based on the Japan Standard

Industrial Classification¹⁷⁾ (Fig. 1-2-29). As major causes, TFP growth in the living-related and personal services industry, which accounts for a large share, marked a large drop into negative territory in period 3 and fell to the lowest level among all industries, and also dropped into negative territory in the other services industry, which

17) The system of industrial classification differs between the Small and Medium-sized Enterprise Basic Act and the Japan Standard Industrial Classification, so the analysis result does not necessarily correspond on a one-to-one basis.

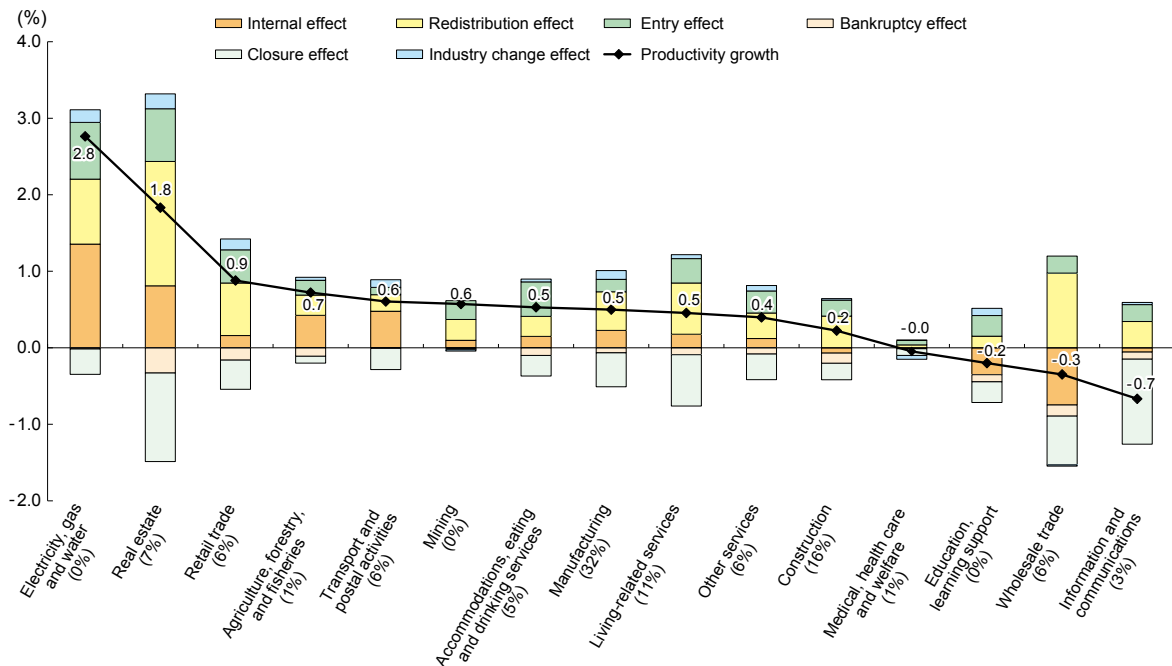
also accounts for relatively large share. Furthermore, in both industries, the entry effect declined significantly, and in the living-related and personal services industry, the internal effect fell significantly from positive to negative territory, as major factors.

While TFP growth dropped significantly in the

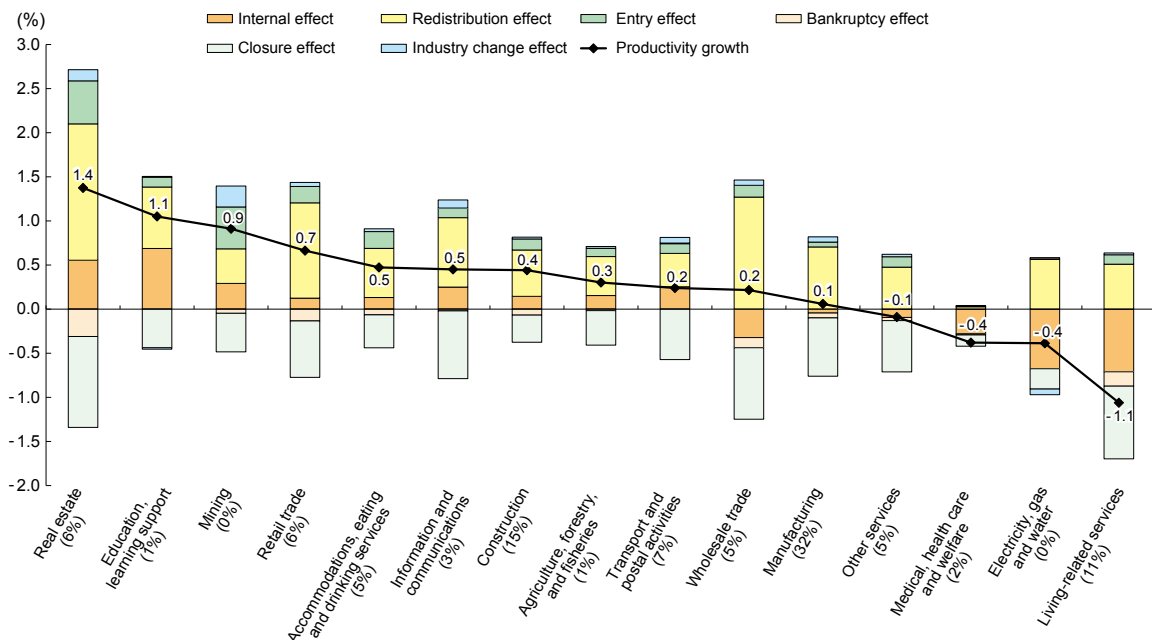
manufacturing and services industries after the Lehman crisis, it showed a relatively firm recovery in other industries. When analyzed using the large industrial classification based on the Japan Standard Industrial Classification, we see that TFP grew steadily in the construction and real estate industries from period 1 to 3.

Fig. 1-2-29 Factors affecting changes in TFP growth (large industrial classification based on the Japan Standard Industrial Classification)

1) Period 1 (2003-2007)



2) Period 3 (2009-2013)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

- Notes:
- TFP growth is the increase in TFP from the reference year to comparison year in each period converted to an annual average growth for each period.
 - The parentheses () under the names of each industry show the average ratio of the gross output of each industry to the total of all industries. The figures are rounded off to the nearest whole number. For more information on gross output, see Appended note 1-2-1.

5. SME characteristics that have a large influence on each effect

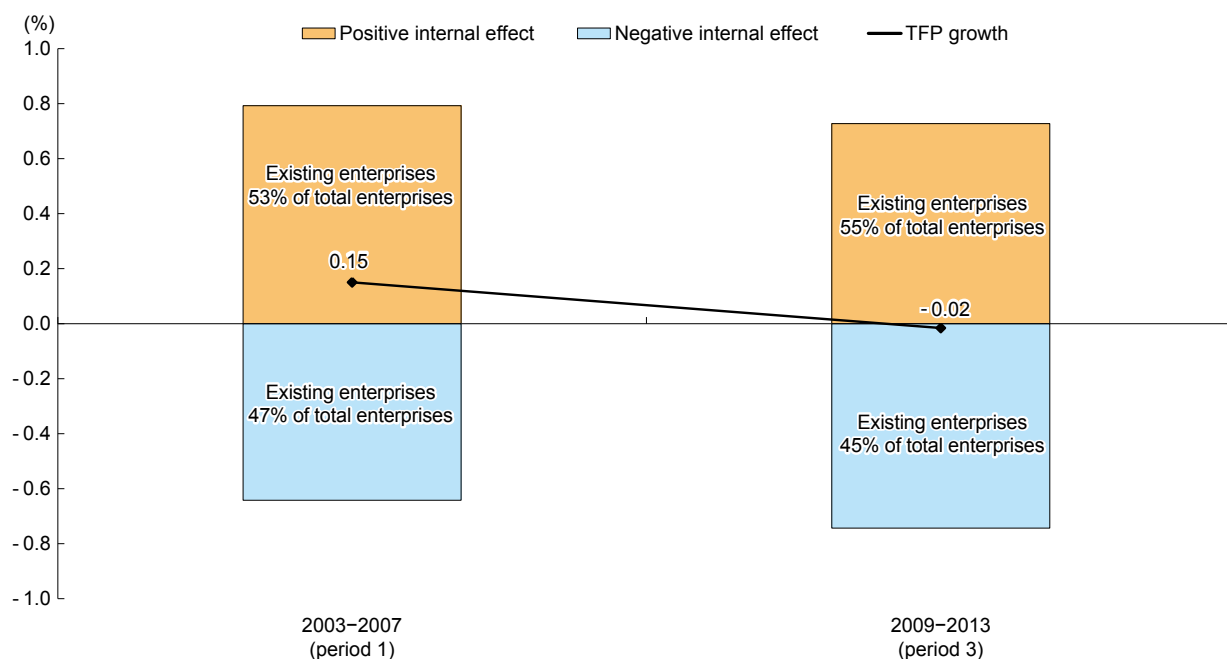
Thus far, we have analyzed changes in TFP growth in SMEs and the effects that affected the changes, by enterprise size and industry. Below, we shall analyze the specific characteristics of SMEs that contributed to bringing about these effects, in order of internal effect, redistribution effect, entry effect, bankruptcy effect and closure effect, divided into positive and negative effects.

(1) Internal effect

When the TFP of a continuing enterprise increases, its internal effect becomes positive, but when it decreases, internal effect becomes negative. The ratio of enterprises that brought about either a positive or negative internal

effect from period 1 to 3 did not change much. Roughly 50% of continuing enterprises pushed up overall TFP, and the remaining 50% pushed it down (Fig. 1-2-30). In period 1, the upward effect slightly surpassed the downward effect, so internal effect as a whole was positive, but in period 3, the positive effect declined somewhat and the negative effect increased, so the downward effect took over the upward effect by a slight amount and brought the overall effect into negative territory. From here, we shall analyze the internal effect with a focus on the characteristics of enterprises that bring about a positive or negative internal effect.

Fig. 1-2-30 Breakdown of the internal effect



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

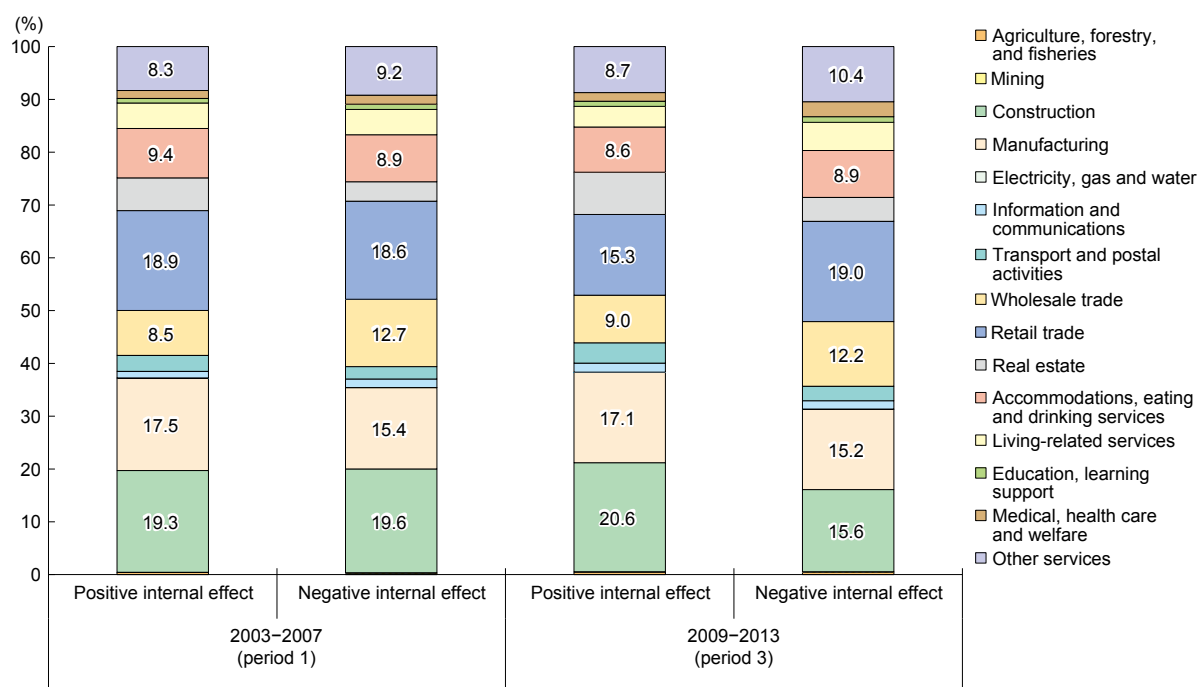
A comparison of the industrial composition of continuing enterprises that have a positive internal effect with continuing enterprises that have a negative internal effect shows that in both periods 1 and 3, continuing enterprises that brought a negative internal effect had a

larger ratio of wholesale trade industries, but there was no major difference as a whole (Fig. 1-2-31 (1)). Additionally, a comparison of management indicators shows that in periods 1 and 3, continuing enterprises having a positive effect had a larger sales growth rate, and continuing

enterprises having a negative effect had a largely negative sales growth rate (Fig. 1-2-31 (2)). Meanwhile, fixed asset growth rate was stably positive in continuing enterprises having a negative effect, while dropping significantly in period 3 in continuing enterprises having a positive effect. It is thought that continuing enterprises having a negative effect make active capital investments, but these investments do not lead to an increase in sales,

so a slowdown in TFP occurs as a result. Furthermore, when considering the possible decline in the spillover effect of the R&D efforts of large enterprises onto SME manufacturing industries, as mentioned in “4. Comparison of TFP change factors by industry,” it is necessary for SMEs to engage in research and development themselves, in order to stably increase TFP in continuing enterprises.

Fig. 1-2-31 (1) Characteristics of existing enterprises (industrial composition)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Fig. 1-2-31 (2) Characteristics of existing enterprises (management indicators)

	2003-2007 (period 1)		2009-2013 (period 3)	
	Positive internal effect	Negative internal effect	Positive internal effect	Negative internal effect
No. of employees	13.6	10.5	15.5	12.8
Sales	290 million yen	320 million yen	300 million yen	370 million yen
Sales growth rate	9.8%	-14.2%	19.1%	-8.3%
Fixed asset growth rate	3.3%	4.6%	0.1%	4.4%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

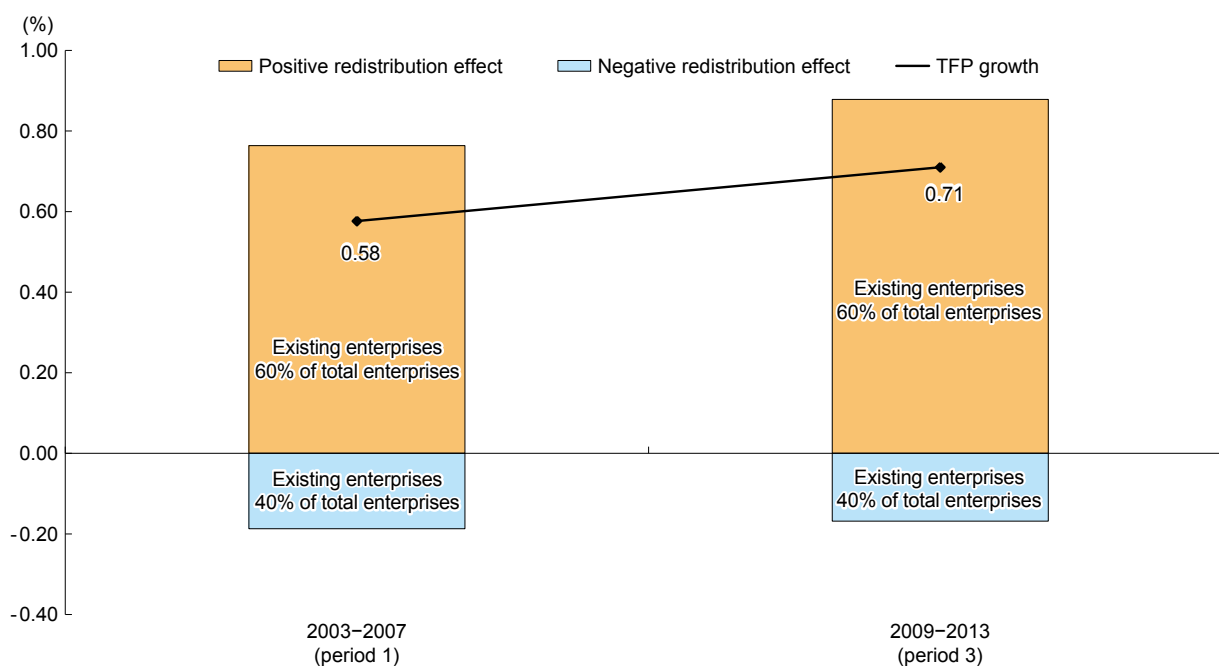
Note: The figures are the averages of enterprise that brought a positive and negative internal effect in periods 1 and 3. The numbers of employees are figures as of 2003 and 2009, respectively. Sales growth rate and fixed asset growth rate are rates of increase from 2003 to 2007 for the first period, and from 2009 to 2013 for the third period.

(2) Redistribution effect

When the share of continuing enterprises with a higher TFP than the industrial average increases, or when the share of continuing enterprises with a lower TFP than the industrial average decreases, redistribution effect becomes positive. Contrarily, when the share of continuing enterprises with a higher TFP than the industrial average decreases, or when the share of continuing enterprises with a lower TFP than the industrial average increases, redistribution effect becomes negative. The ratio of enterprises that brought about a positive or negative redistribution effect from period 1 to 3 did not

change much. Roughly 60% of continuing enterprises pushed up overall TFP, and the remaining 40% pushed it down, with the upward factor largely exceeding the downward factor (Fig. 1-2-32). As we have seen thus far, the redistribution effect contributed the most to increasing TFP in SMEs through the three periods, and its positive margin increased from period 1 to 3. This is attributed to the negative redistribution effect practically unchanging from periods 1 to 3, and an increase in the positive effect. Below we shall analyze the redistribution effect with a focus on the increase in the positive redistribution effect.

Fig. 1-2-32 Breakdown of the redistribution effect

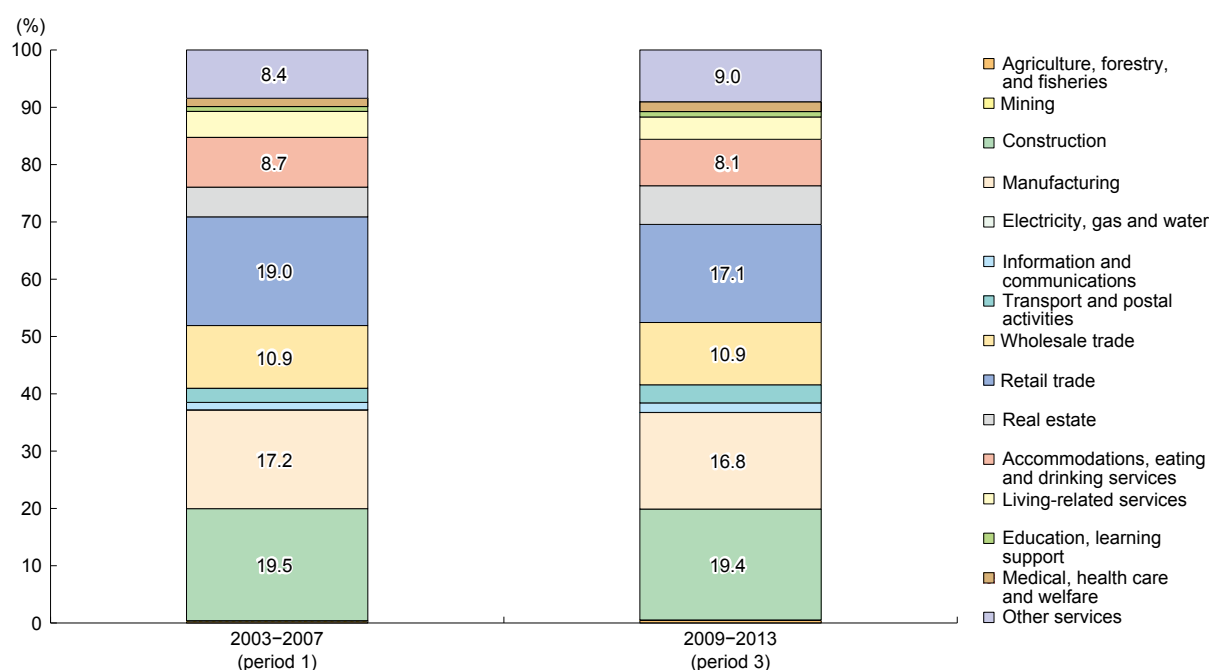


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

The industrial composition of continuing enterprises having a positive redistribution effect generally remained unchanged between periods 1 and 3 (Fig. 1-2-33 (1)). A comparison of management indicators also show that sales growth ratio was practically zero in period 1 but marked a growth of almost 10% in period 3 (Fig. 1-2-33 (2)). From this, it is thought that in period 1, the redistribution effect was positive largely owing to a decline in the share of enterprises with a low TFP, but in period 3, the positive margin of the redistribution effect expanded owing to an increase in the share of enterprises with a high TFP.

In fact, from period 1 to 3, the ratio of enterprises that contributed to increasing TFP by reducing their share (enterprises with a low TFP) dropped from 26% to 16%, while the ratio of enterprises that contributed to increasing TFP by expanding their share (enterprises with a high TFP) increased from 34% to 44% (Fig. 1-2-34). It could be said that in periods 1 and 3, a sound competitive environment was secured among SMEs, but in period 3, a more preferable situation emerged in which enterprises with a high TFP actively increased their sales.

Fig. 1-2-33 (1) Characteristics of enterprises having a positive redistribution effect (industrial composition)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

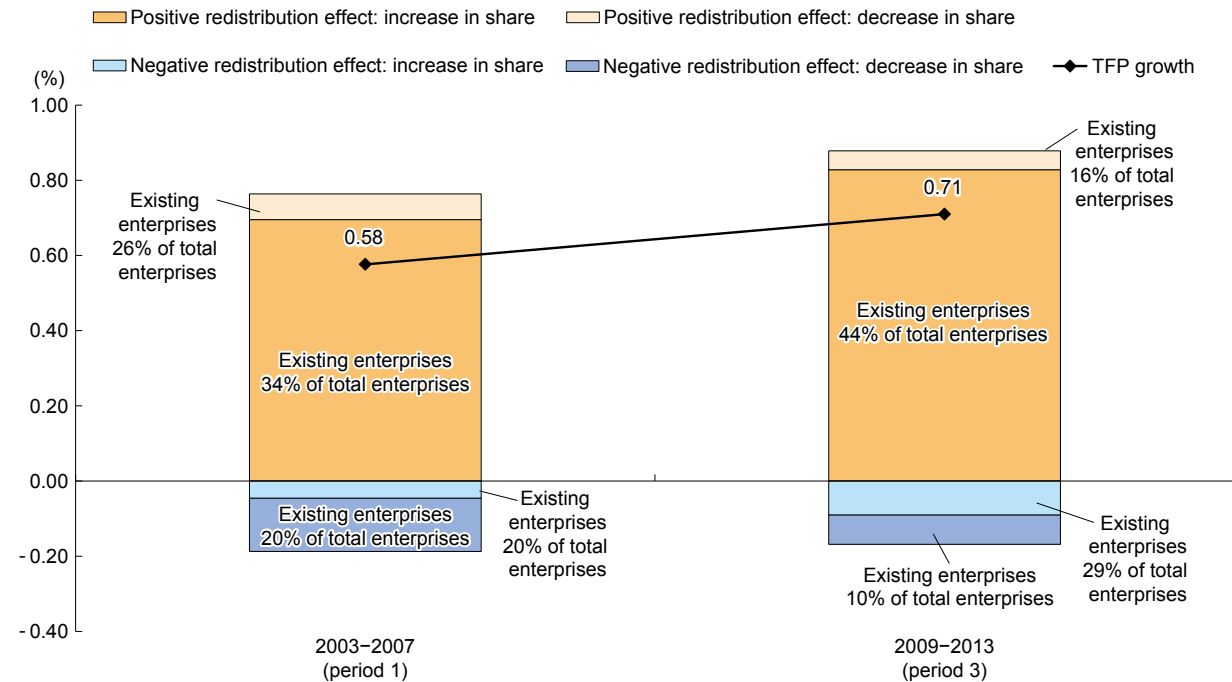
Fig. 1-2-33 (2) Characteristics of enterprises having a positive redistribution effect (management indicators)

	2003-2007 (period 1)	2009-2013 (period 3)
No. of employees	12.5	14.2
Sales	330 million yen	380 million yen
Sales growth rate	0.4%	9.5%
Fixed asset growth rate	5.3%	3.2%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: The figures are the averages of enterprise that brought a positive redistribution effect in periods 1 and 3. The numbers of employees are figures as of 2003 and 2009, respectively. Sales growth rate and fixed asset growth rate are rates of increase from 2003 to 2007 for the first period, and from 2009 to 2013 for the third period.

Fig. 1-2-34 Breakdown of the redistribution effect (details)

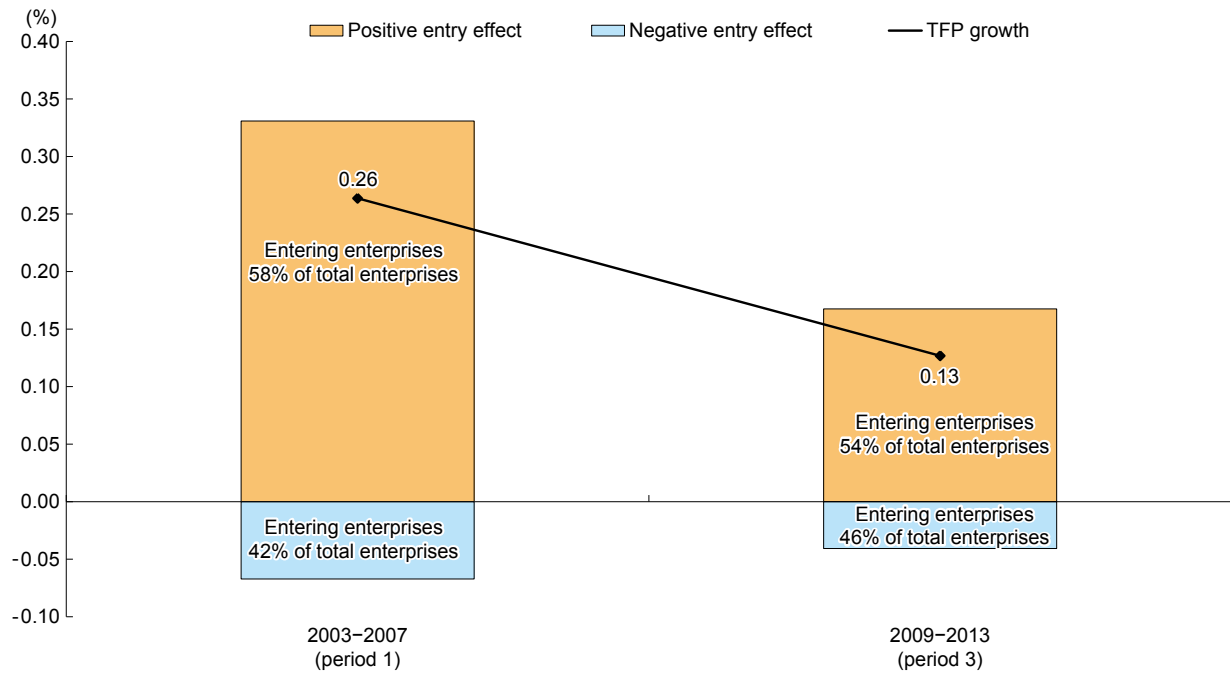


Source: RIETI, Commissioned project concerning the analysis of SME revitalization.

(3) Entry effect

When the TFP of an entering enterprise is higher than the industrial average, entry effect becomes positive, but when TFP is lower than the industrial average, entry effect becomes negative. The ratio of enterprises that brought about a positive or negative entry effect from period 1 to 3 did not change much. Roughly 50% of entering enterprises

pushed up overall TFP, and the remaining 50% pushed it down. Because the upward effect exceeded the downward effect, the overall entry effect became positive (Fig. 1-2-35). Furthermore, from period 1 to 3, the negative entry effect decreased, but the positive entry effect decreased even more, and led to a decrease in the overall entry effect.

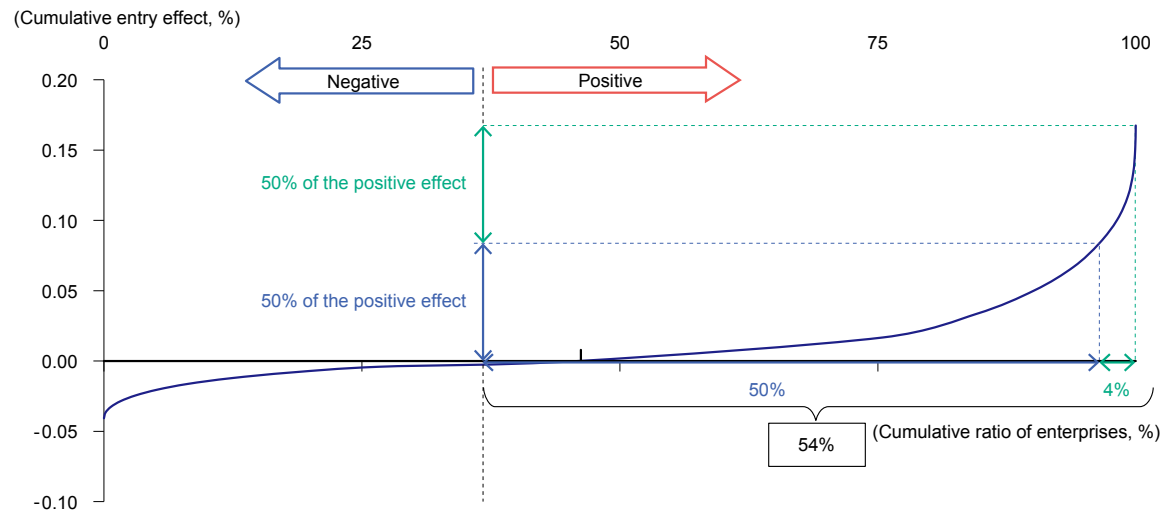
Fig. 1-2-35 Breakdown of the entry effect (periods 1 and 3)

Source: RIETI, Commissioned project concerning the analysis of SME revitalization.

A distribution of entering enterprises in period 3 shows that roughly 4% of enterprises contributed to 50% of the positive effect, and 50% of enterprises contributed to the remaining 50% of the positive effect (Fig. 1-2-36). Therefore, below, we shall analyze the characteristics of enterprises according to three groups: approx. 4% of enterprises that contribute to 50% of the positive entry

effect (hereinafter, positive entering enterprises-1), approx. 50% of enterprises that contribute to the remaining 50% of the positive entry effect (hereinafter, positive entering enterprises-2), and entering enterprises that contribute to the negative entry effect (hereinafter, negative entering enterprises).

Fig. 1-2-36 Distribution of entering enterprises in period 3

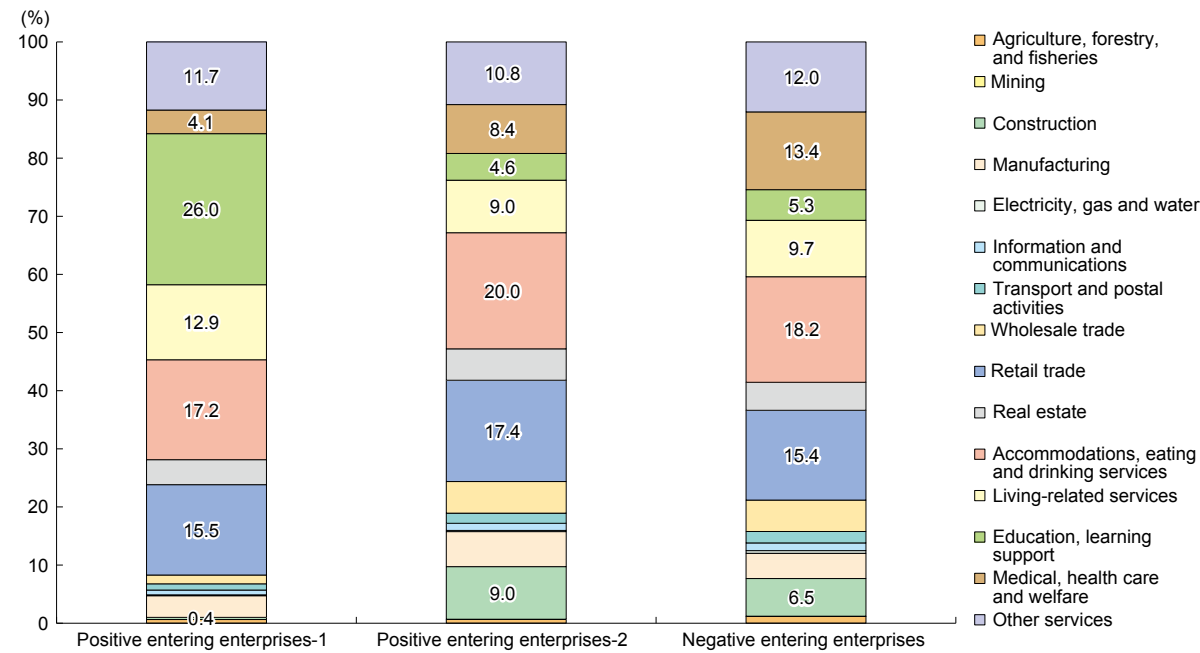


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

First, a comparison of the industrial composition of the three groups of enterprises in period 3 shows that while positive entering enterprises-2 and negative entering enterprises had practically the same composition, positive

entering enterprises-1 had a higher ratio of enterprises in the education, learning support and a lower ratio of enterprises in medical, health care and welfare and construction (Fig. 1-2-37 (1)).

Fig. 1-2-37 (1) Characteristics of enterprises having a positive entry effect (industrial composition)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Next, let us compare the management indicators of the three groups of enterprises (Fig. 1-2-37 (2)). Positive entering enterprises-1 have an extremely large number of employees and sales compared to the other two groups. Positive entering enterprises-2 are smaller in size

compared to positive entering enterprises-1, but have larger sales per employees compared to negative entering enterprises, and the highest ordinary profit to sales ratio of the three groups. It could be said that positive entering enterprises-2 are small, but have strong earning power.

Fig. 1-2-37 (2) Characteristics of entering enterprises in period 3 (management indicators)

	Positive entering enterprises-1 (4%)	Positive entering enterprises-2 (50%)	Negative entering enterprises (46%)
No. of employees	26.5	4.9	9.6
Sales	1,540 million yen	130 million yen	80 million yen
Ordinary profit to sales ratio	3.6%	4.1%	-2.1%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: All figures are the averages of period 3. The numbers of employees, sales amounts and ordinary profit to sales ratio are figures as of 2013.

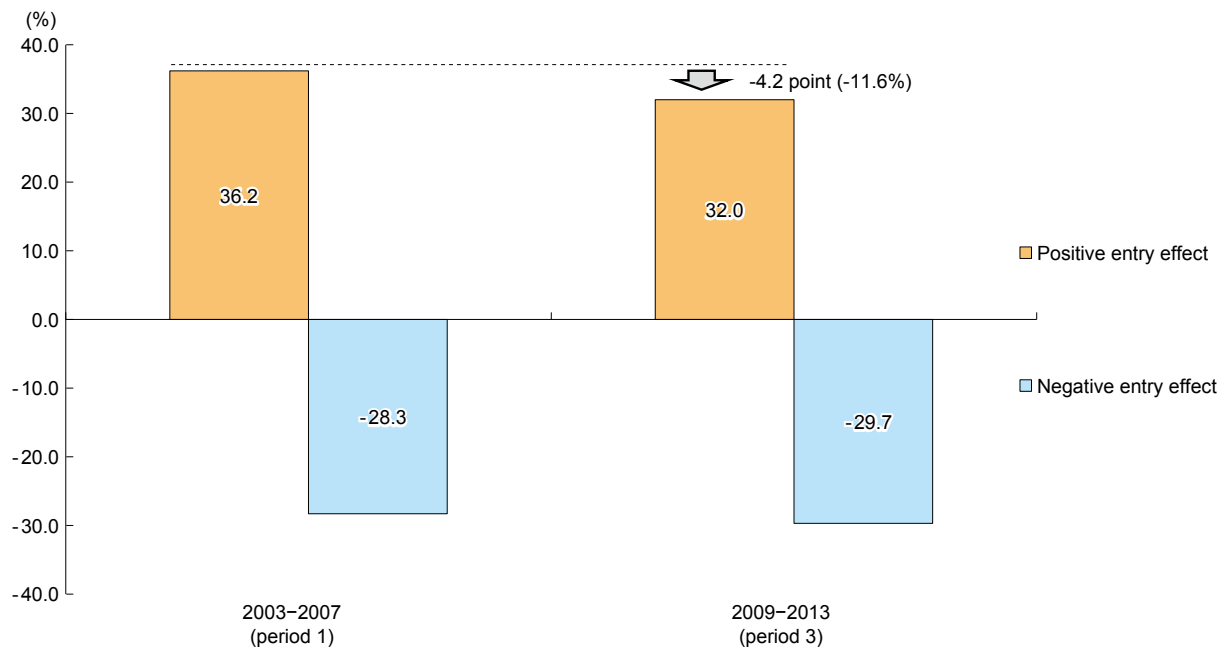
As discussed in “2. Change factors of labor productivity and total factor productivity (TFP),” entry effect dropped from period 1 to 3, due to the decrease in the positive entry effect during that period. To what degree entering enterprises have an impact on overall TFP growth is determined by three factors: the degree to which the TFP level of each entering enterprise deviates from the average level of TFP in their industry; the market share of each entering enterprise; and the ratio (entry rate) of entering enterprises to enterprises as a whole.

Therefore, by comparing the above three factors related to positive enterprises in periods 1 and 3, we shall estimate the reason why the positive entry effect decreased. First, the TFP level of positive entering enterprises surpassed the industrial average by 36.2% in period 1 and by 32.0% in period 3, such that the excess rate dropped by 4.2 point (11.6%) (Fig. 1-2-38). Second, the market share of

positive entering enterprises was 0.0036% in period 1 and 0.0029% in period 3, marking a decrease of 0.0007 point (19.4%) (Fig. 1-2-39). Lastly, the entry rate¹⁸⁾ of positive entering enterprises was 10.3% in period 1 and 6.3% in period 3, marking a drop of 4.0 point (38.8%) (Fig. 1-2-40).

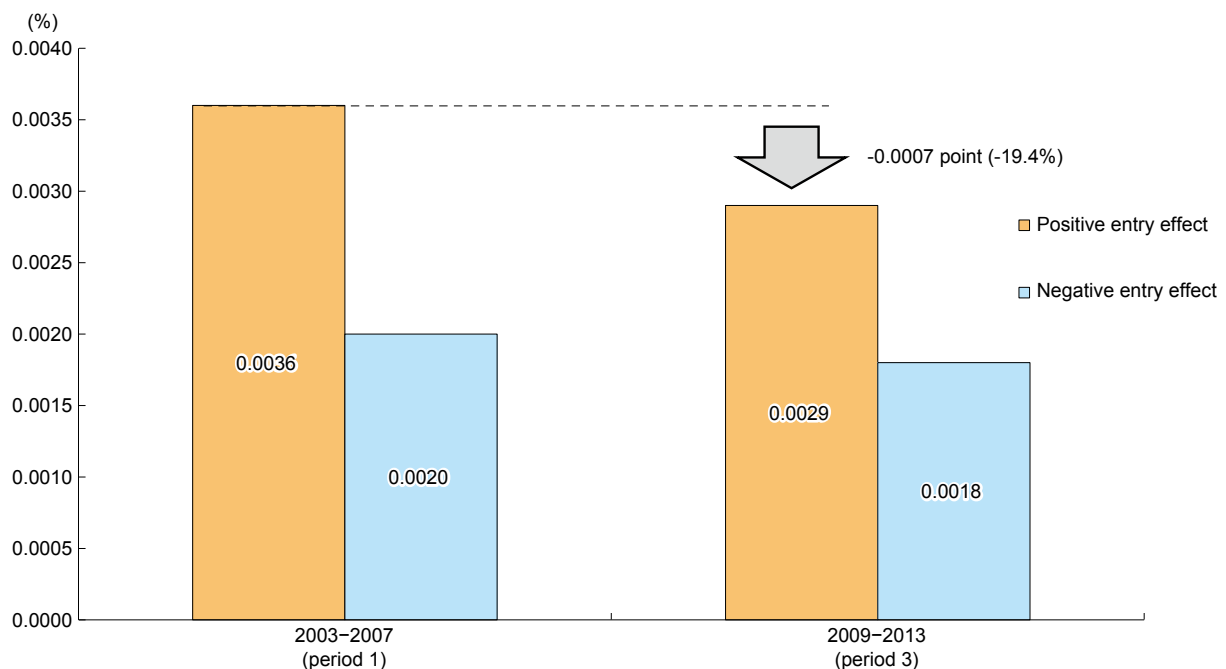
From the above, it could be said that the decrease in positive entry effect was foremost influenced by the decline in the number of positive entering enterprises entering the market, followed by the decline in the market share of positive entering enterprises. Since it is not easy to increase the number of market entries by particularly large enterprises such as positive entering enterprises-1, as analyzed earlier, it is important to promote the entry of enterprises that are small but innovative, and account for the majority of positive entering enterprises.

18) Entry rate refers to the ratio of entering enterprises to total enterprises.

Fig. 1-2-38 TFP level of entering enterprises

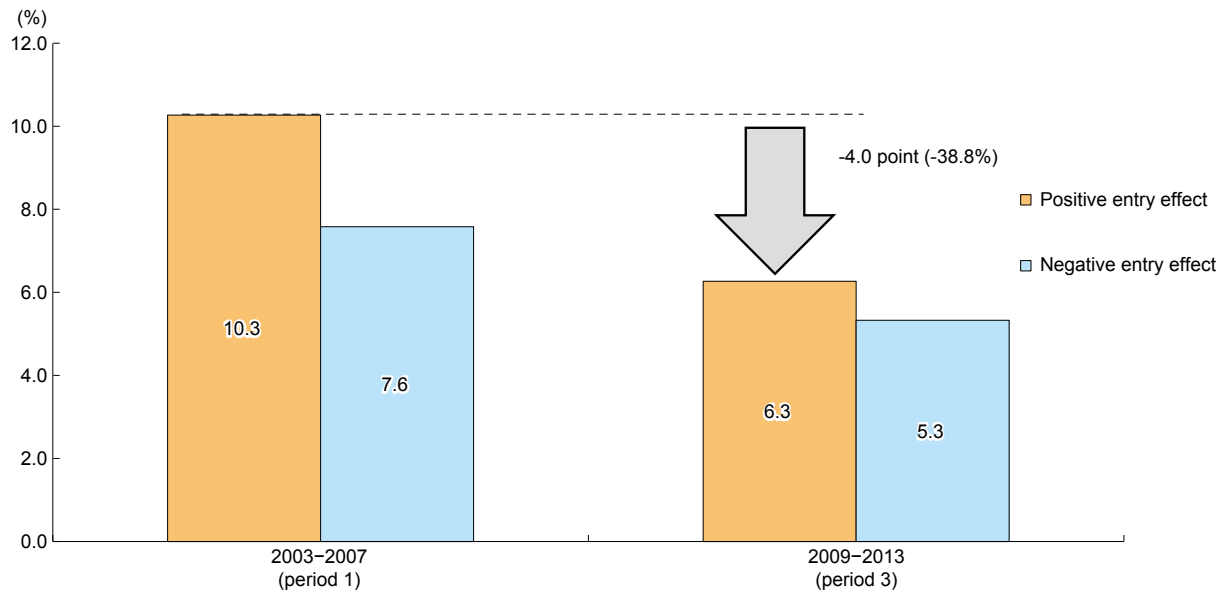
Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: The figures are average rates of deviation between the TFP of entering enterprises and the TFP level of their industries, as of 2013.

Fig. 1-2-39 Market share of entering enterprises

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: The figures are averages of the ratio of sales in each entering enterprises to sales in their industries, as of 2013.

Fig. 1-2-40 Entry rates

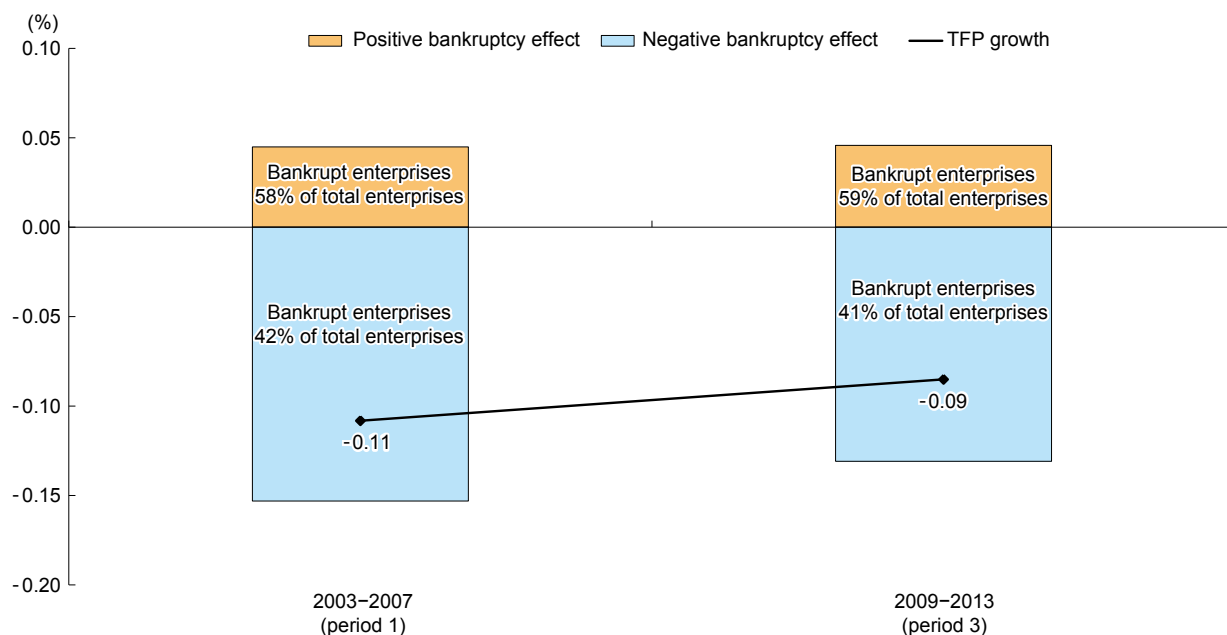
Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: The figures are ratios of market entries to total enterprises, as of 2013.

(4) Bankruptcy effect

When the TFP of bankrupt enterprises is lower than the industrial average, bankruptcy effect becomes positive, but when it is higher than the industrial average, bankruptcy effect becomes negative. From period 1 to 3, the ratio of enterprises that contributed to either the positive or negative bankruptcy rate remained generally unchanged, with 60% of bankrupt enterprises pushing up

overall TFP, and the remaining 40% pushing it down (Fig. 1-2-41). Although the ratio of bankrupt enterprises that contributed to pushing up TFP is high, the bankruptcy of a few large enterprises caused the overall bankrupt effect to become negative. Below, let us examine the characteristics of the bankruptcy effect with a focus on large enterprises having a negative bankruptcy effect.

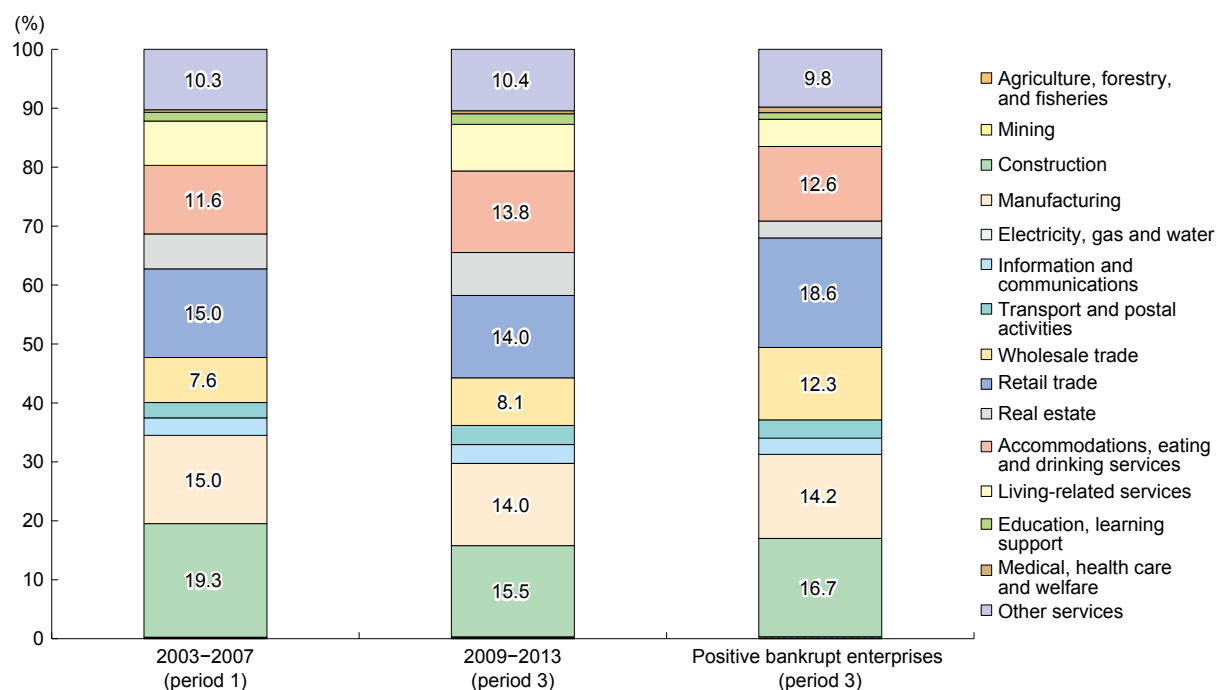
Fig. 1-2-41 Breakdown of the bankruptcy effect (periods 1 and 3)

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

First, in periods 1 and 3, 10% of bankrupt enterprises accounted for more than 80% of the negative effect, and the bankruptcy of a few enterprises drove TFP down into negative territory. With respect to the industrial composition of these enterprises, no significant changes were seen from period 1 to 3, beside the slight increase in the ratio of enterprises in the accommodations, eating and drinking services industry and the real estate industry (Fig. 1-2-42 (1)). Meanwhile, enterprises having a large negative bankruptcy effect had a larger ratio of enterprises in the living-related and personal services industry and real estate industry, and a smaller ratio of enterprises in the wholesale trade industry compared to enterprises having a positive bankruptcy effect.

Next, a look at the management indicators of enterprises having a large negative bankruptcy effect shows that many of these enterprises have large sales

in proportion to their number of employees, as well as a steady growth in sales (Fig. 1-2-42 (2)). Additionally, among enterprises having a large negative bankruptcy effect, the ratio of enterprises that have fallen into a state of excess debts at the beginning of the period is small compared to enterprises having a positive bankruptcy effect, but enterprises that have not fallen into a state of excess debts at the beginning of the period have a larger ratio of total debt to total assets than positive bankrupt enterprises. Furthermore, enterprises with a large negative bankruptcy effect have a high fixed asset growth rate, so they actively borrow money and make investments, and in some cases go bankrupt as a result of taking too many risks. Such enterprises would push up the TFP of SMEs overall if they do not go bankrupt, so it is important to provide support and prevent them from inadvertently going bankrupt.

Fig. 1-2-42 (1) Characteristics of enterprises having a large negative bankruptcy effect (industrial composition)

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Fig. 1-2-42 (2) Characteristics of enterprises having a large negative bankruptcy effect (management indicators, etc.)

	2003-2007 (period 1)	2009-2013 (period 3)	Positive bankrupt enterprises (period 3)
Ratio to bankrupt enterprises	10%	10%	59%
Ratio to total negative bankruptcy effect	84%	86%	-
No. of employees	18.7	17.1	10.0
Sales	1.22 billion yen	0.98 billion yen	0.12 billion yen
Sales growth rate	8.3%	4.7%	-5.7%
Ordinary profit to sales ratio	1.2%	-1.2%	-9.7%
Fixed asset growth rate	8.8%	7.6%	1.2%
Excess debt ratio	24.1%	38.6%	70.1%
Ratio of debts to total assets *Non excess debt enterprises	84.0%	83.3%	80.0%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

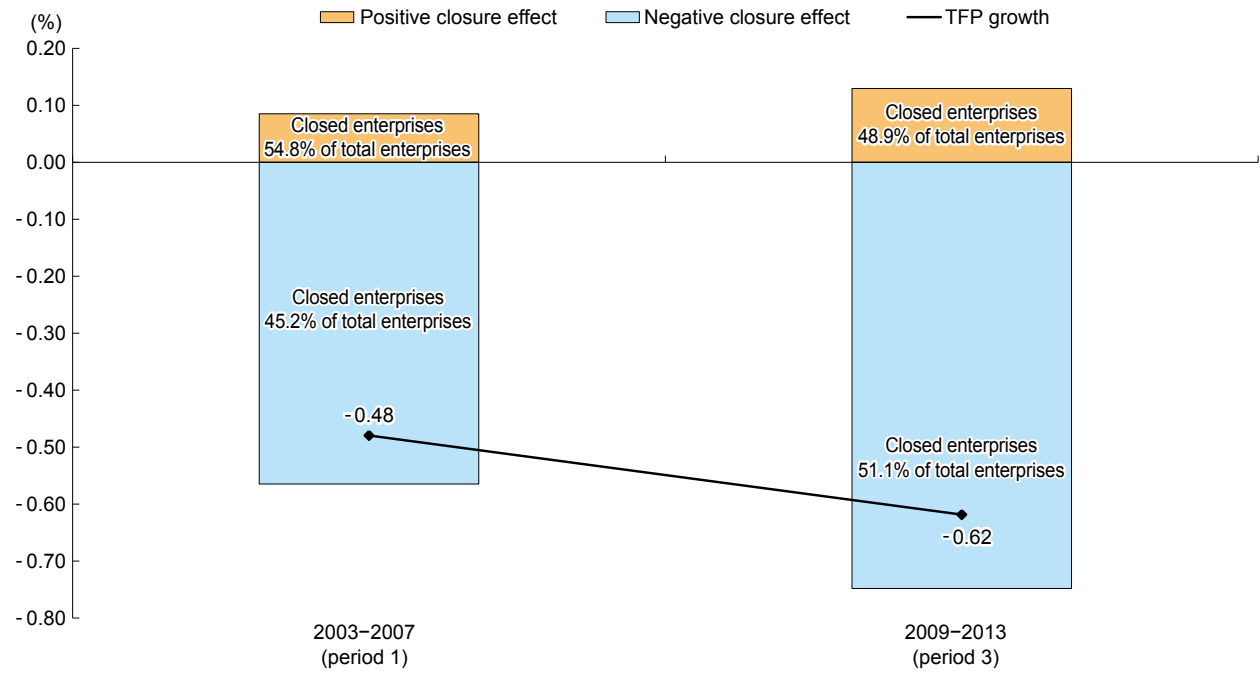
Note: The above figures are the averages of bankrupt enterprises. The number of employees, sales and ordinary profit to sales ratio are figures as of 2003 and 2009. Sales growth rate and fixed asset growth rate in period 1 are the average of the five years up to 2003, and the average of the five years up to 2009 in period 3.

(5) Closure effect

When the TFP of closed enterprises is lower than the industrial average, closure effect becomes positive, but when it is higher than the industrial average, closure effect becomes negative (Fig. 1-2-43). From period 1 to 3, the ratio of enterprises having a positive closure effect

dropped roughly 6%, and the ratio of enterprises having a negative closure effect increased roughly 6%. However, 50% of closed enterprises generally pushed up overall TFP, and the remaining 50% pushed it down. Because the downward effect was significantly larger than the upward effect, overall closure effect remained largely negative.

Fig. 1-2-43 Breakdown of the closure effect (periods 1 and 3)

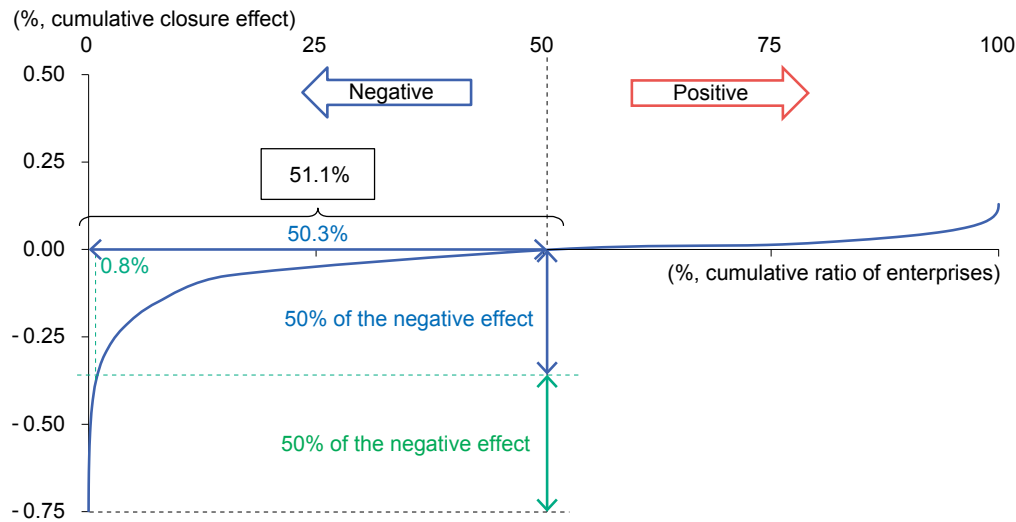


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Next, when we look at the distribution of closed enterprises in period 3, we see that approximately 0.8% of enterprises contributed to 50% of the negative effect, and 50.3% of enterprises contributed to the remaining 50% (Fig. 1-2-44). Therefore, below, we shall analyze the characteristics of closed enterprises according to three groups: closed enterprises having a positive closure effect

(hereinafter, positive closed enterprises); approximately 0.8% of enterprises that contribute to 50% of the negative closure effect (hereinafter, negative closed enterprises-1); and 50.3% of enterprises that contribute to the remaining 50% of the negative effect (hereinafter, negative closed enterprises-2).

Fig. 1-2-44 Distribution of closed enterprises in period 3

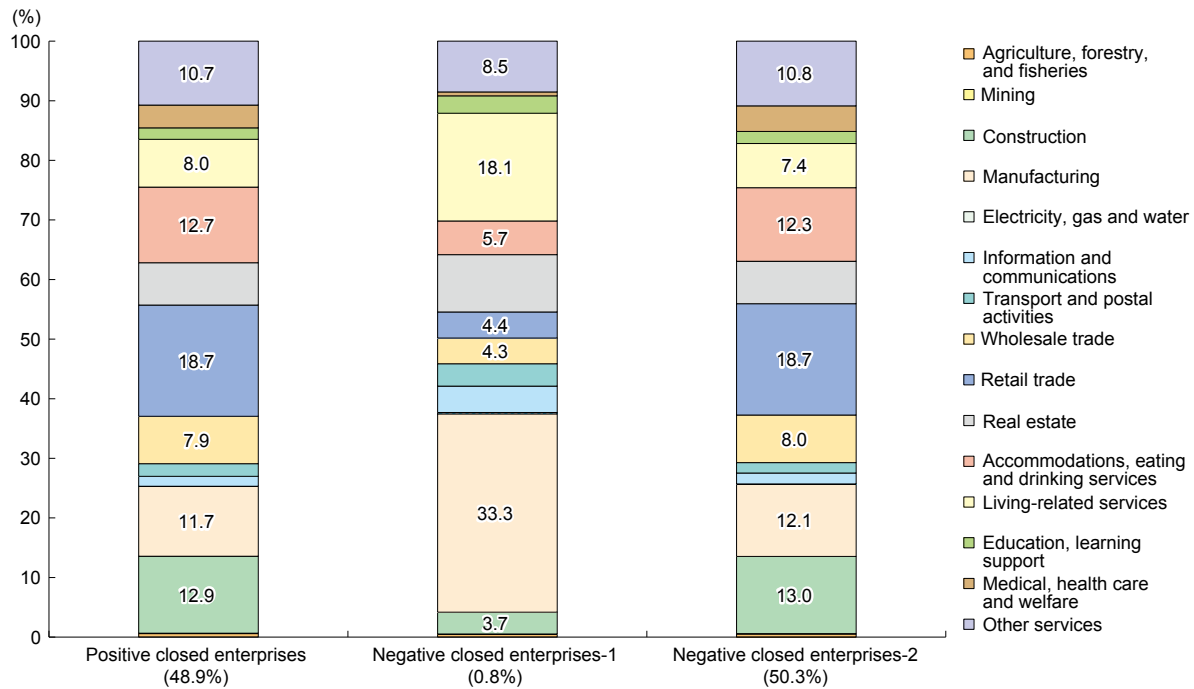


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

First, a comparison of the industrial composition of the three groups of enterprises in period 3 shows that positive closed enterprises and negative closed enterprises-2 have roughly the same industrial composition, while negative closed enterprises-1 have a larger ratio of enterprises

in the living-related and personal services industry and manufacturing industries and a lower ratio of enterprises in the accommodations, eating and drinking services industry, retail trade industry and construction industry (Fig. 1-2-45 (1)).

Fig. 1-2-45 (1) Characteristics of closed enterprises in period 3 (industrial composition)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Next, let us compare the management indicators of the three groups of enterprises. First, positive closed enterprises have a lower sales growth rate and ordinary profit to sales ratio compared to the other two groups, and the exiting of such enterprises contributed to pushing up TFP (Fig. 1-2-45 (2)). Meanwhile, negative closed enterprises-1 have an extremely large number of employees and sales compared to the other two groups, and display high performance also in terms of sales growth rate, ordinary profit to sales ratio, and fixed asset growth rate. They also have a low excess debt ratio, and are clearly financially sound. In this analysis, enterprises that become a subsidiary of another enterprises through M&A are counted as closed enterprises, so it is possible that negative closed enterprises-1 have not actually

closed the company, but have become a target of M&A. Negative closed enterprises-2 have a lower sales growth rate and fixed asset growth ratio compared to continuing enterprises, but a higher ordinary profit to sales ratio. Their rate of having a successor is lower compared to continuing enterprises, but with average sales of 190 million yen, they fall below the 300 million yen sales level at which private M&A intermediaries generally emerge. Therefore, it is possible that they end up exiting the market, because they are out of the reach of private agencies and are unable to find a successor. From the perspective of increasing long-term productivity in Japan, it is important to facilitate the handover of the management resources of this group of enterprises.

Fig. 1-2-45 (2) Characteristics of closed enterprises in period 3 ((2) management indicators)

	Positive closed enterprises (48.9%)	Negative closed enterprises-1 (0.8%)	Negative closed enterprises-2 (50.3%)	Continuing enterprises (corresponds to negative closed enterprises-2)
No. of employees	8.7	94.5	6.4	11.2
Sales	90 million yen	6,590 million yen	190 million yen	340 million yen
Sales growth rate	-3.8%	3.5%	0.6%	1.4%
Ordinary profit to sales ratio	-1.1%	4.9%	3.9%	1.9%
Fixed asset growth rate	-0.5%	6.0%	1.0%	3.9%
Excess debt ratio	45.3%	6.2%	34.1%	30.4%
Rate of having a successor	40.8%	41.7%	42.0%	45.0%
Ratio of debts to total assets *Non excess debt enterprises	61.7%	63.8%	63.1%	70.5%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Notes: 1. All figures are the average of each group of enterprises. The figures for number of employees, sales, ordinary profit to sales ratio, and rate of having a successor are figures as of 2009. The figures for sales growth rate and fixed asset growth rate are the average of the five years up to 2009.
2. The figures for continuing enterprises are the average of enterprises having the same TFP and market share as negative closed enterprises-2.

Section 3 Summary

In this chapter, we analyzed the productivity and present state of market entries and exits of enterprises in Japan, and the impacts of the trends in the life cycle of SMEs on the productivity of SMEs as a whole in Japan.

The labor productivity of enterprises in Japan is stagnating, particularly in SMEs, and the slowdown in the manufacturing industries is especially conspicuous. When compared to large enterprises, any increase in labor productivity was brought about not by an increase in added value, but by the decrease in number of workers.

The number of enterprises in Japan is on a declining trend, dropping by 0.39 million enterprises from 2009 to 2014, due to a large decline in the number of small enterprises. On the other hand, the number of medium enterprises has increased. The large decline in the number of enterprises caused a decline in the number of workers in larger enterprises and small enterprises, but the increase in the number of medium enterprises kept the total number of workers unchanged. As a result, the number of workers per enterprise increased noticeably in medium enterprises. During the period from 2009 to 2014, it could be said that medium enterprises increased their presence in terms of their numbers of enterprises and workers in Japan.

In consistency with the significant decline in the number of enterprises, business suspensions, closures and dissolutions in Japan marked a record high in 2016. The ratio of enterprises whose manager is aged 60 or older or aged 80 or older also reached a record high, indicating that the aging of managers is behind the increase in business suspensions, closures and dissolutions. Furthermore, among suspended, closed or dissolved enterprises, half of all enterprises for which their ordinary profit to sales ratio is available have exited the market with a surplus. Most of these enterprises were small enterprises.

The analysis thus far has revealed that the life cycle of enterprises, such as market entries and exits, has a large impact on the changes in number of enterprises and employees in Japan, but in this chapter, we also analyzed how trends in the component elements of the life cycle of enterprises, such as market entries and exits, had an impact on the productivity of SMEs in Japan as whole between period 1 (2003–2007) and period 3 (2009–2013).

Market entries boosted TFP in SMEs as a whole through the entry effect, but the upward effect is shrinking. Additionally, the increasing share of continuing enterprises with high productivity has pushed up overall TFP through the redistribution effect, but the TFP level of continuing enterprises is declining, and the internal effect is stagnating. Furthermore, the bankruptcy and closure of enterprises with high productivity has pushed down overall productivity, indicating that the closure effect had a particularly strong downward effect.

A comparison of changes in TFP by enterprise size shows a difference in the recovery of large enterprises and SMEs after the Lehman crisis (period 3). While large enterprises saw an increase in the positive margins of their internal effect and entry effect, SMEs failed to recover as well, due to the internal effect turning negative, the entry effect reducing its positive margin, and the closure effect expanding its negative margin. It is thought that the large stagnation in the productivity of continuing medium enterprises caused the internal effect of SMEs as a whole to drop, and thereby hindered TFP growth.

A comparison of changes in TFP in SMEs by industry shows that TFP growth has slowed down in both the manufacturing and non-manufacturing industries. A possible cause of the slowdown in TFP in manufacturing enterprises is the stagnation of the internal effect due to the decline in the spillover effect of the R&D efforts of large enterprises on SMEs. Behind the decline in TFP growth in the non-manufacturing enterprises is the shifting of the internal effect from positive to largely negative territory in the living-related and personal services industry, which accounts for a large share of the services industry, and the drop in TFP growth in the service industry to a negative.

We also analyzed the characteristics of SMEs that have brought about each effect. First, we saw that enterprises with a high TFP expanded their market share, and enterprises with a low TFP reduced their share, thereby increasing overall TFP and ensuring a sound competitive environment for SMEs. On the other hand, the TFP level of continuing enterprises has stagnated due to the fact that enterprises that make active investments were not able to expand their sales. Additionally, the effect of entering enterprises in boosting TFP has weakened, indicating the need to promote entries by enterprises that may be small but have high earning power. Furthermore, among enterprises that have exited the market due to bankruptcy or business closure, 50 to 60% were enterprises with a low TFP, but bankruptcies and closures by a few large enterprises with a high TFP have contributed to pushing down overall TFP.

Moreover, among closed enterprises with a high TFP, a group of relatively small enterprises is thought to have closed due to the absence of successors. Therefore, from the perspective of improving long-term productivity in Japan, it is necessary to facilitate the handover of the management resources of such enterprises.

Chapter 3

The employment environment and labor shortage in SMEs and micro-businesses

The previous chapter analyzed how developments in the life cycle of SMEs impact the productivity of SMEs in Japan. This chapter analyzes the impact of today's labor shortage on each life stage of SMEs in reference to the present state of the employment environment in Japan and the underlying employment and industrial structures.

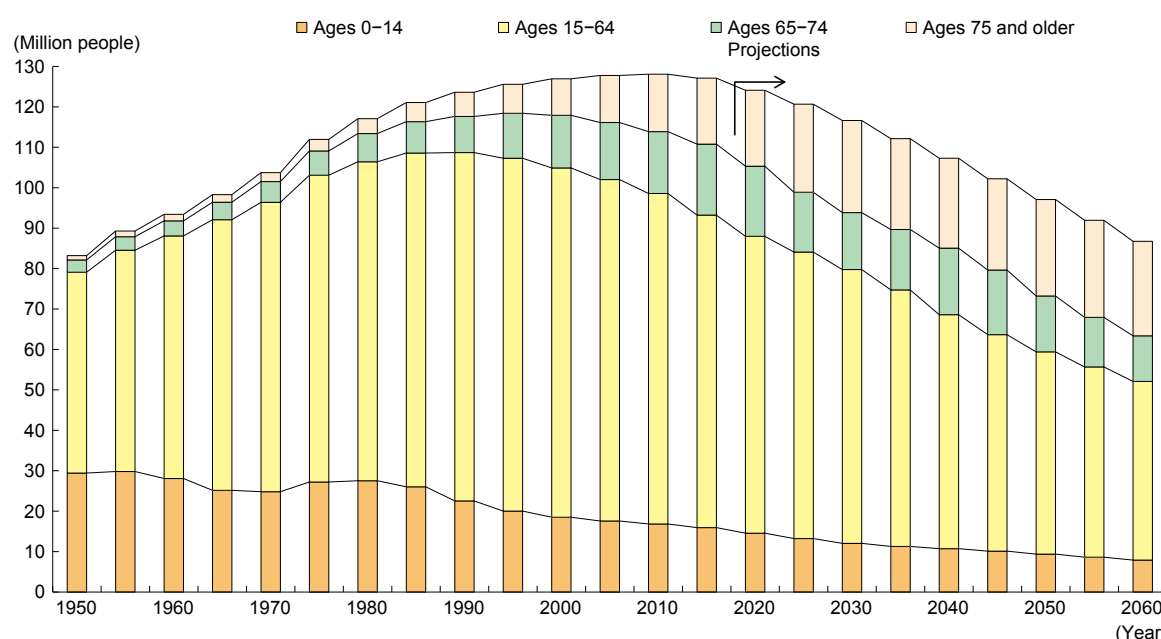
Section 1 The employment environment in Japan

1. Overview of the employment environment in Japan

First, let us review Japan's population and age structure. Japan's population increased after 1950, but has shifted to a decline in recent years, and is rapidly aging, as also evident by the declining ratio of the young population and working population and increasing ratio of the elderly

population (Fig. 1-3-1). Future population projections indicate that there will be a conspicuous increase in the elderly population, and particularly the population of elderly people over the age of 75.

Fig. 1-3-1 Population projections by age group



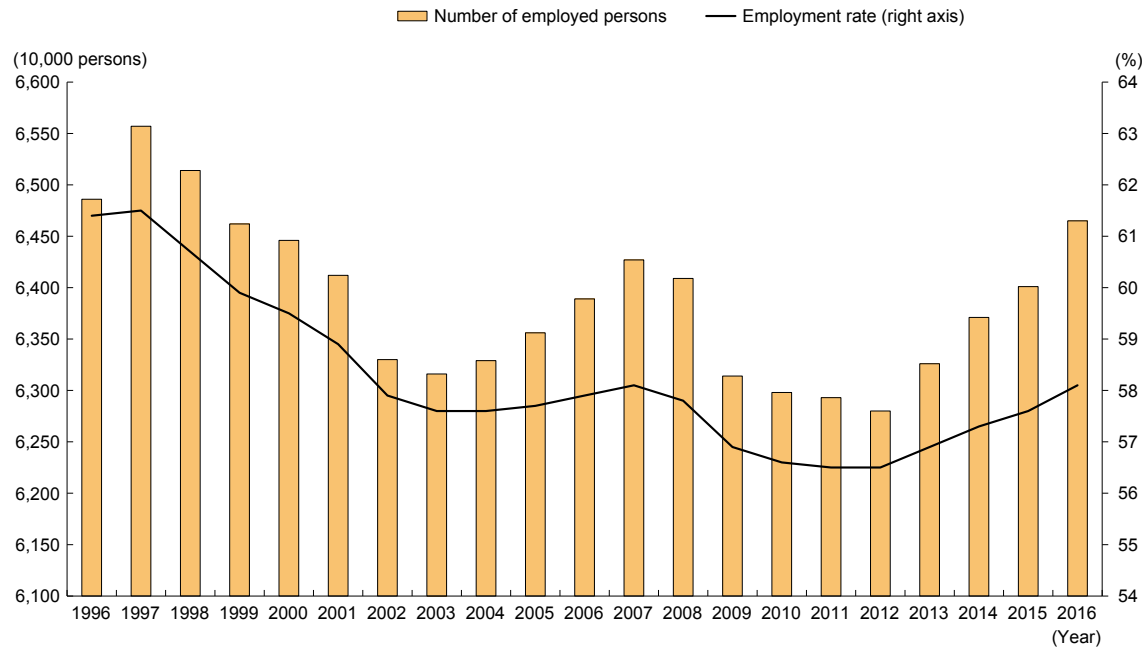
Sources: MIC, *Population Census*; National Institute of Population and Social Security Research, *Population Projections for Japan* (January 2012 projections).

Notes: 1. Future population projections after 2020 are based on medium fertility (medium mortality) estimates.
2. Populations up to 2015 are based on MIC, *Population Census* (people of uncertain age are proportionally distributed).

On the other hand, a look at the number of employed persons shows that a declining trend had continued due to a decline in the working population, but an increase has been seen in the past four years, owing to an increase in the employment rate (Fig. 1-3-2). When analyzed in terms

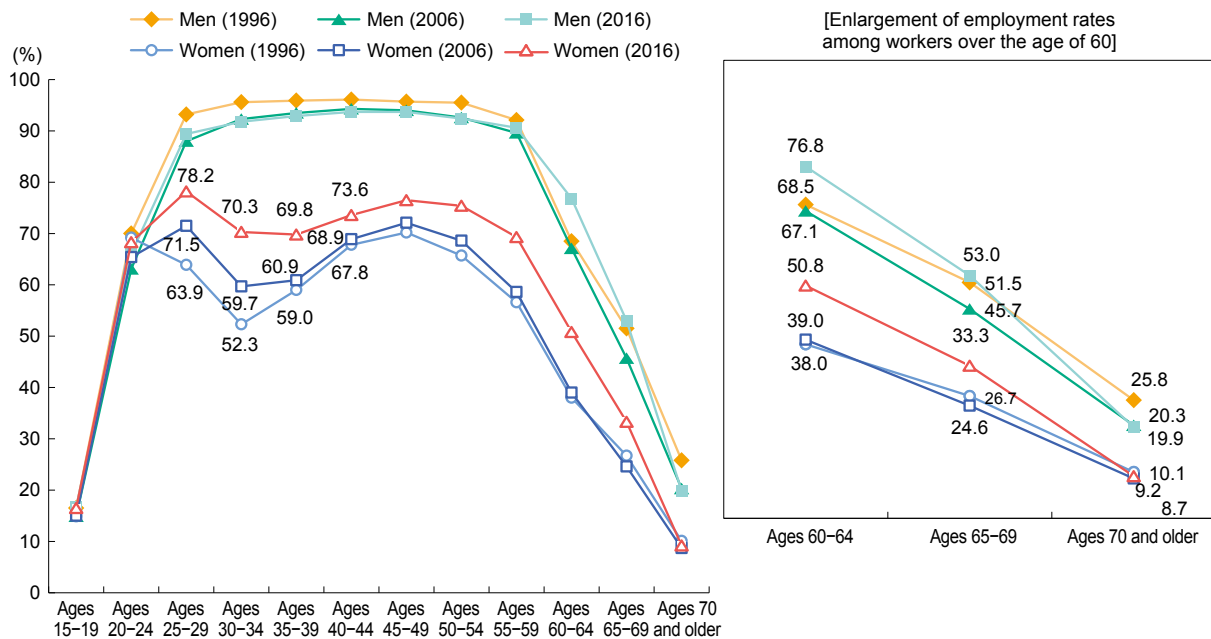
of age and gender, we see that there has been an increase in labor force participation particularly of relatively young elderly people in their 60s and women ages 25 to 44 who comprise the lower portion of the so-called M-curve, over the past twenty years (Fig. 1-3-3).

Fig. 1-3-2 Number of employed persons and employment rate



Source: MIC, Labor Force Survey.

Fig. 1-3-3 Changes in employment rate by age and gender (1996–2016)



Source: MIC, Labor Force Survey.

In terms of the overall unemployment rate, which represents the ratio of unemployed persons¹⁾ in the labor

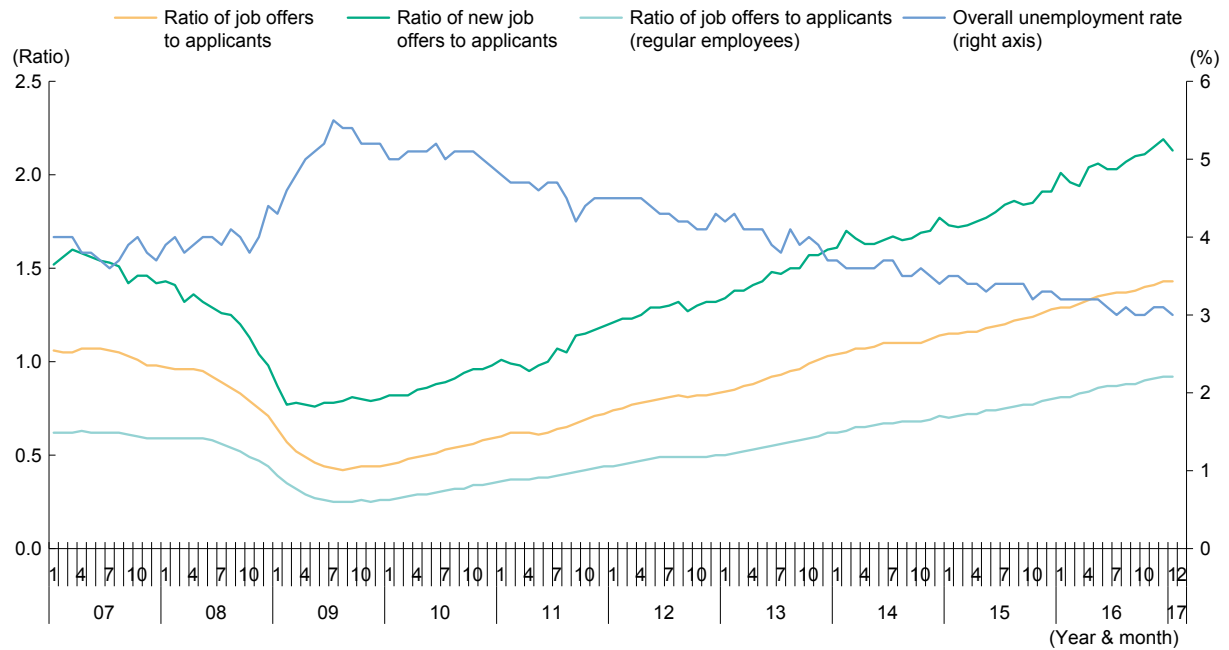
force²⁾, a declining trend has continued over the past several years, and has recently reached the lowest level in

1) Unemployed persons refer to those people who had no jobs during the survey period but could work immediately if a job were available, and were preparing to engage in activities or operations for seeking employment during the survey period.
2) Labor force participation is the sum of employed and unemployed persons in the population above the age of 15.

22 years (Fig. 1-3-4). The ratio of job offers to applicants, which signify the demand-supply situation in the labor market, has continued to increase and reached the highest level in 25 years. Similar increases have also occurred in

the ratio of new job offers to applicants, the ratio of job offers to applicants, and the ratio of job offers to applicants for regular employees.

Fig. 1-3-4 Ratio of job offers to applicants and the unemployment rate



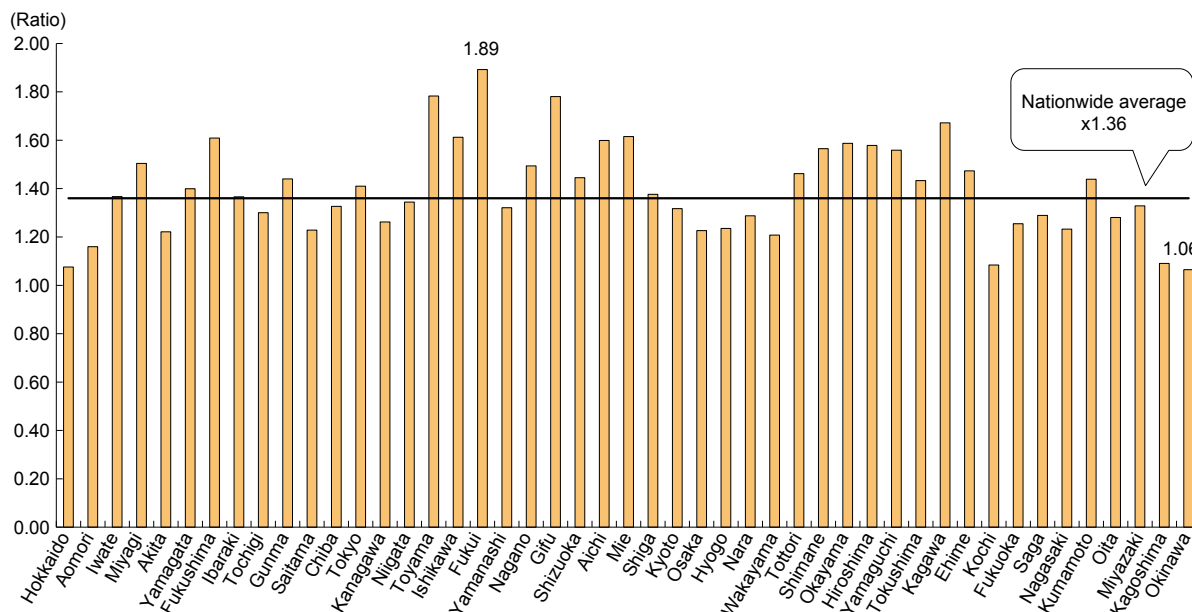
Sources: MHLW, *Employment Referrals for General Workers*; MIC, *Labor Force Survey*.

Notes: 1. Figures are seasonally adjusted figures.

2. Unemployment rates between March and August 2011 are interpolated estimates, as nationwide data do not exist for that period due to the impact of the Great East Japan Earthquake.

A regional analysis of the ratio of job offers to applicants shows that the ratio was over 1.0 in all 47 prefectures in 2016, indicating that the number of job

offers exceeded the number of applicants on a nationwide scale (Fig. 1-3-5).

Fig. 1-3-5 Ratio of job offers to applicants, by prefecture (by place of employment, 2016 average)

Source: MHLW, *Employment Referrals for General Workers*.

As seen above, the employment environment in Japan is improving, as indicated by the increase in the number of employed persons, a decline in the unemployment

rate, and a nationwide increase in the ratio of job offers to applicants.

2. Employment and industrial structures that underlie the employment environment (mismatch between enterprises and job seekers)

Below, we shall analyze the employment and industrial structures that underlie the present state of the employment environment as discussed above.

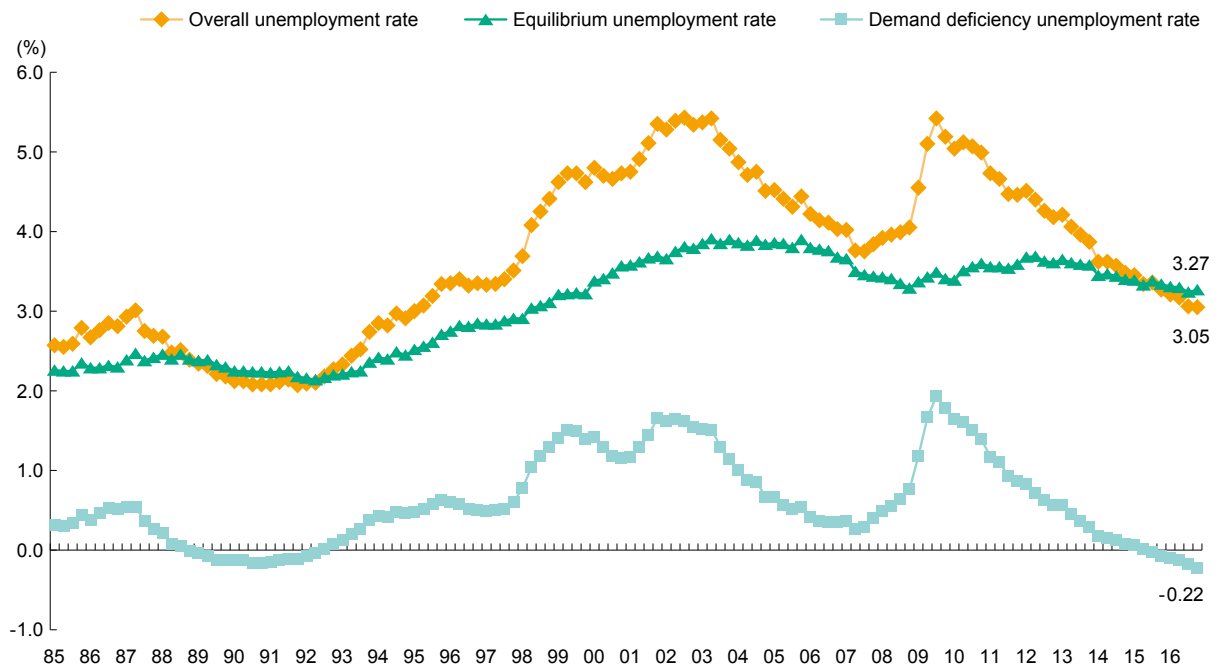
Here, we shall analyze two unemployment factors that accompany structural unemployment and business fluctuations by using the unemployment-vacancy analysis (UV analysis)³⁾ and breaking down the overall employment rate into equilibrium unemployment rate⁴⁾ and demand deficiency unemployment rate.

The results of a factor analysis show that unemployment rate is in the negative due to demand

deficiency, and that the unemployment we see today is a structural unemployment caused by a mismatch in abilities, qualifications, working conditions, etc. between enterprises and job seekers, and by the amount of time that is spent on labor mobility, including the amount of time that job seekers spend on job-seeking activities and the amount of time that enterprises spend on screening applicants (Fig. 1-3-6). The employment mismatch is thought to be related to occupation (line of work), age and type of employment. Here, let us examine in detail occupation (line of work) and type of employment.

3) For UV analysis in detail, refer Japan Institute for Labour Policy and Training, *Youthful Labor Statistics 2016*.

4) Equilibrium unemployment rate is the rate at which the unemployment rate (the ratio of unemployed persons to the total number of employed and unemployed persons) and vacancy rate (the ratio of the number of unfilled vacancies to the total number of employed persons and number of unfilled vacancies) are equal. The difference with overall unemployment rate is called demand deficiency unemployment rate.

Fig. 1-3-6 Factor analysis of unemployment rate

Source: Japan Institute for Labour Policy and Training, *Youthful Labor Statistics 2016*.

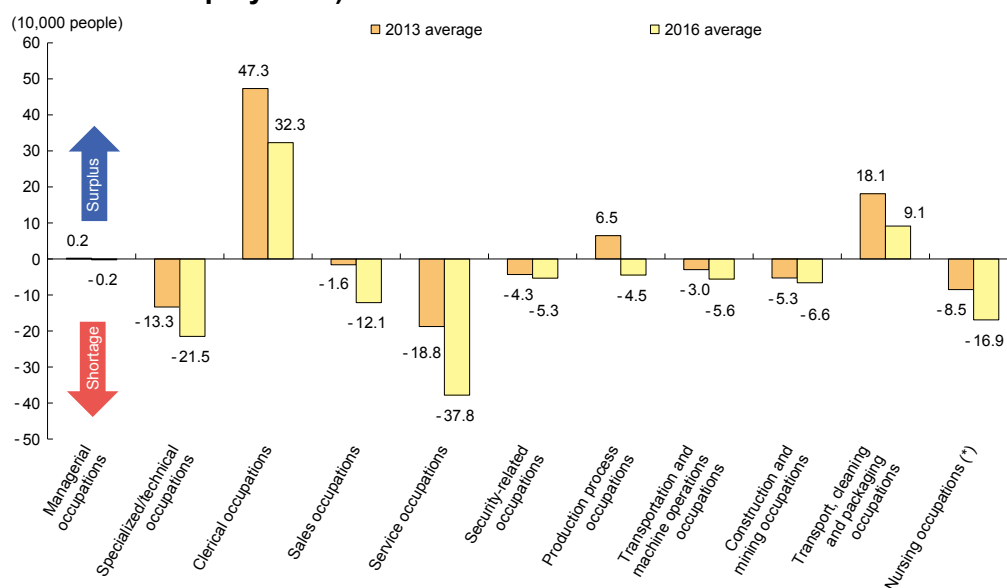
Note: The data shows seasonally adjusted figures.

First, let us examine the mismatch between occupations for which enterprises seek applicants and occupations that are sought by job seekers. A look at the number of effective job seekers and the number of effective job offers by occupation shows that in both 2013 and 2016, the number of effective job seekers largely exceeded the number of effective job offers in clerical occupations, but largely fell short of the number of effective job offers in the services and specialized/technical occupations, as a clear example of the mismatch between enterprises and job seekers (Fig. 1-3-7 (1)). From 2013 to 2016, the shortage of workers increased in all occupations, beginning with the sales, services, and nursing occupations. However, in clerical occupations, the number of effective job seekers continued

to exceed the number of effective job offers, and thus the mismatch between occupations for which enterprises seek applicants and occupations that are sought by job seekers continued to exist.

Since the number of job seekers and job offers largely differ by occupation, let us examine the ratio of job offers to applicants from 2013 to 2016 by occupation. The ratio increased in all occupations over the past three years, and the number of effective job offers increased compared to the number of effective job seekers. However, it remained below 1 in the clerical occupation and the transport, cleaning, and packaging occupations, and the number of effective job seekers continued to exceed the number of effective job offers (Fig. 1-3-7 (2)).

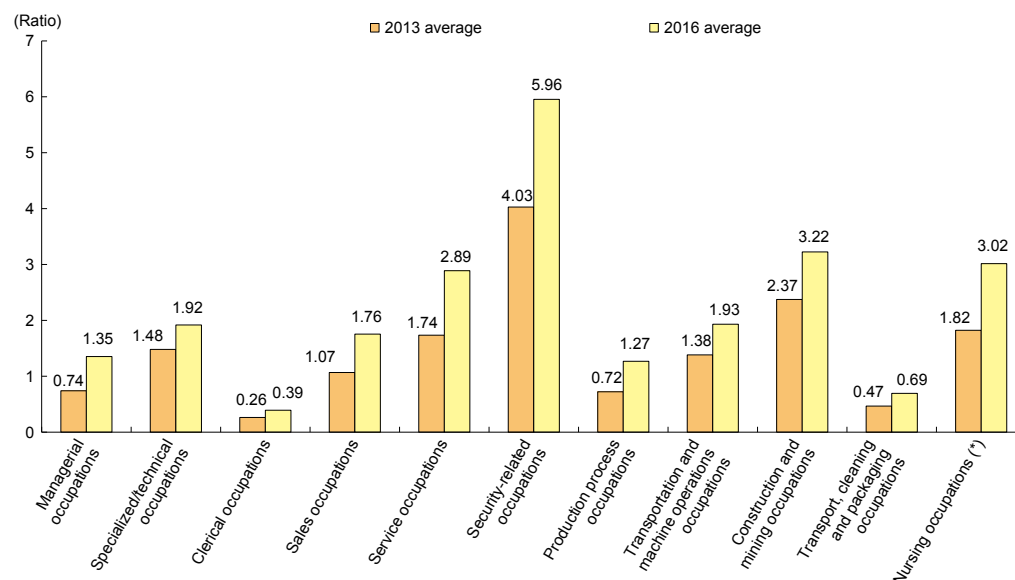
Fig. 1-3-7 (1) Difference between the number of effective job seekers and the number of effective job offers, by occupation (regular employment, including part-time employment)



Source: MHLW, *Employment Referrals for General Workers*.

Notes: 1. The above data excludes agriculture, forestry and fishery occupations and occupations not able to be classified.
2. The figures for nursing occupations are the sum of welfare facility instructors, other specialized social welfare occupations, housekeepers and domestic helpers, and nursing service occupations, based on the 2011 revised occupational classification of the Ministry of Health, Labour and Welfare, respectively extracted from specialized/technical occupations and services occupations.

Fig. 1-3-7 (2) Ratio of job offers to applicants by occupation (regular employment, including part-time employment)



Source: MHLW, *Employment Referrals for General Workers*.

Notes: 1. The above data excludes agriculture, forestry and fishery occupations and occupations not able to be classified.
2. The figures for nursing occupations are the sum of welfare facility instructors, other specialized social welfare occupations, housekeepers and domestic helpers, and nursing service occupations, based on the 2011 revised occupational classification of the Ministry of Health, Labour and Welfare, respectively extracted from specialized/technical occupations and services occupations.

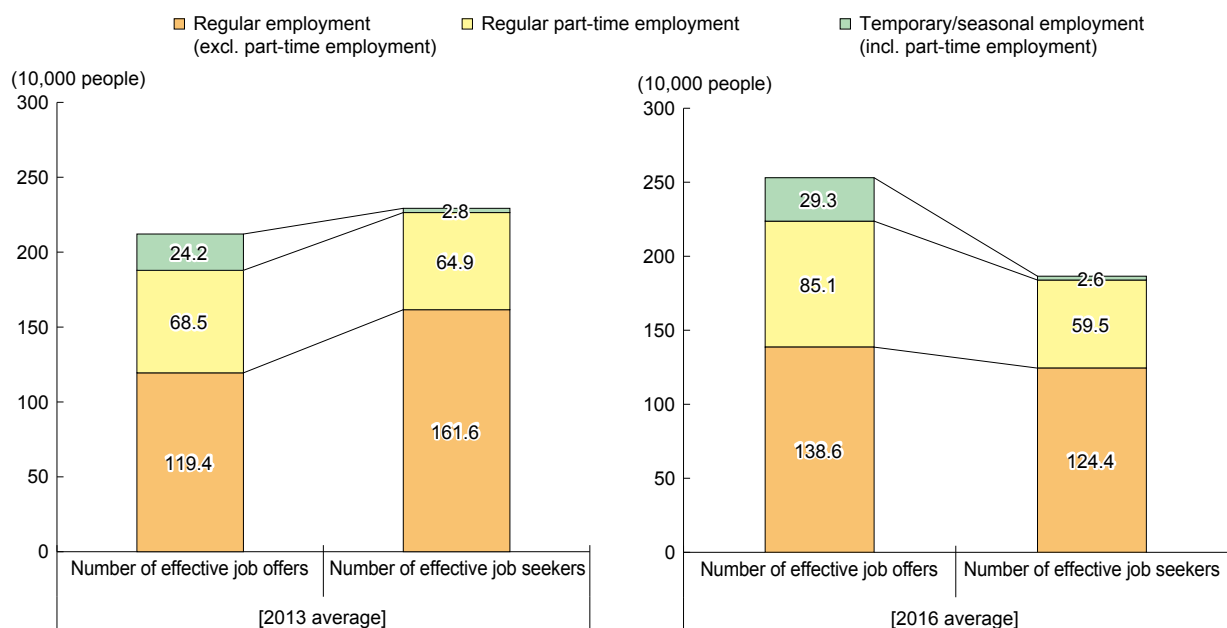
Next, let us examine the mismatch in type of employment between enterprises and job seekers. A

comparison of the number of effective job offers and the number of effective job seekers by type of employment

shows that in 2013, the number of job offers fell short of the number of job seekers for regular employment (excluding part-time employment)⁵⁾, but the number of job offers exceeded the number of job seekers for regular part-time employment⁶⁾ and temporary/seasonal employment (including part-time employment)⁷⁾, thus creating a possible mismatch in type of employment (Fig. 1-3-8). Thereafter, from 2013 to 2016, the number of job offers increased for all types of employment but the number of job seekers, and particularly those who seek regular employment (excluding part-time employment)

declined, such that the number of job offers exceeded the number of job seekers in all types of employment. This means that the mismatch in type of employment between enterprises and job seekers was somewhat mitigated from 2013 to 2016. In terms of the increase in the number of effective job offers from 2013 to 2016, a large increase was seen in regular part-time employment and temporary/seasonal employment (including part-time employment) compared to regular employment (excluding part-time employment).

Fig. 1-3-8 Numbers of effective job offers and effective job seekers by type of employment (2013–2016)



Source: MHLW, *Employment Referrals for General Workers*.

Notes: 1. Regular employment (excluding part-time employment) refers to employment for an indefinite term or for more than four months under an employment contract, excluding part-time and seasonal employment, and thus differs from the employment of regular employees or regular personnel.
2. Regular part-time employment refers to employment for an indefinite term or for more than four months under an employment contract, excluding seasonal employment.

We have seen that today's unemployment in Japan amid an improving employment environment is a structural unemployment caused by mismatches, and that

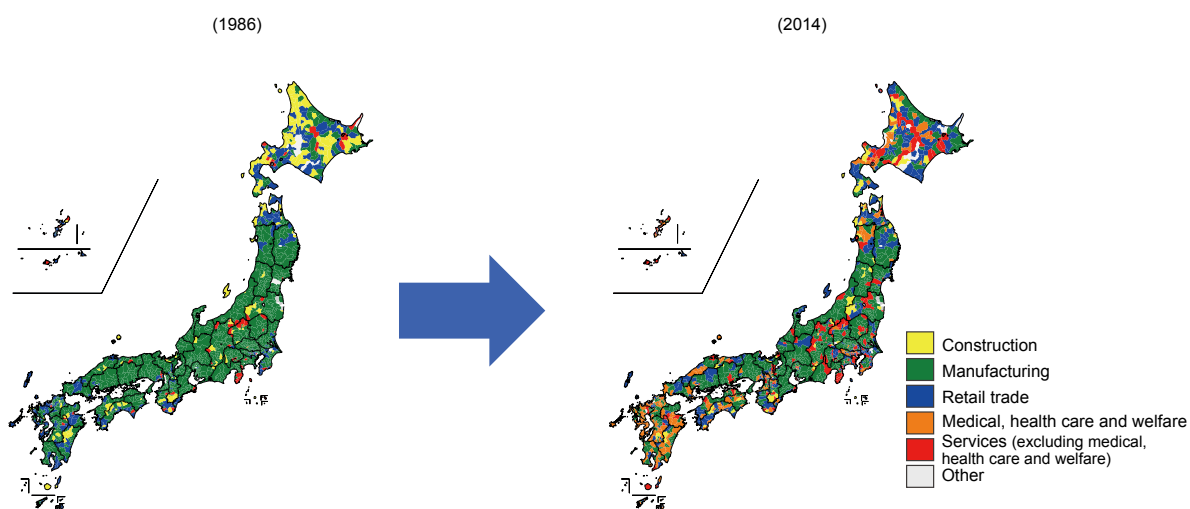
underlying this structural unemployment is a mismatch in occupations for which enterprises seek applicants and occupations that are sought by job seekers.

- 5) Regular employment (excluding part-time employment) refers to employment by workers who are employed for an indefinite term or for more than four months based on an employment contract, but excludes part-time employment.
- 6) Regular part-time employment refers to employment by workers who work shorter hours per compared to the weekly working hours of ordinary workers employed by the same business establishment, and who are employed for an indefinite term or for more than four months.
- 7) Temporary employment refers to employment by those who are employed work for an employment contract term of more than a month and less than 4 months as specified in an employment contract. Seasonal employment refers to employment by those who are employed for a specified fixed term (whether for less than 4 months or more than 4 months) in response to seasonal labor demand or over a seasonal holiday.

Column 1-3-1 Relationship between the number of job offers by type of employment and changes in industrial structure

Changes in the industrial structure in Japan is thought to be behind the large increase in the number of job offers by enterprises for regular part-time employment and temporary/seasonal employment (including part-time employment). A look at long-term changes in industries with the largest number of workers in each municipality shows that as of 1986, the manufacturing industries had the largest number of workers in the majority of municipalities in all regions excluding Hokkaido, Aomori, Kochi, Kyushu and Okinawa, but as of 2014, there has been a conspicuous increase in the number of municipalities in which the retail trade and services industries have the largest number of workers, and particularly in the medical, health care and welfare industries. This indicates a shift in the industrial structure from the manufacturing industries to services industries (Fig. Column 1-3-1 (1)).

Fig. Column 1-3-1 (1) Changes in regional industrial structures by number of workers (in units of municipality)

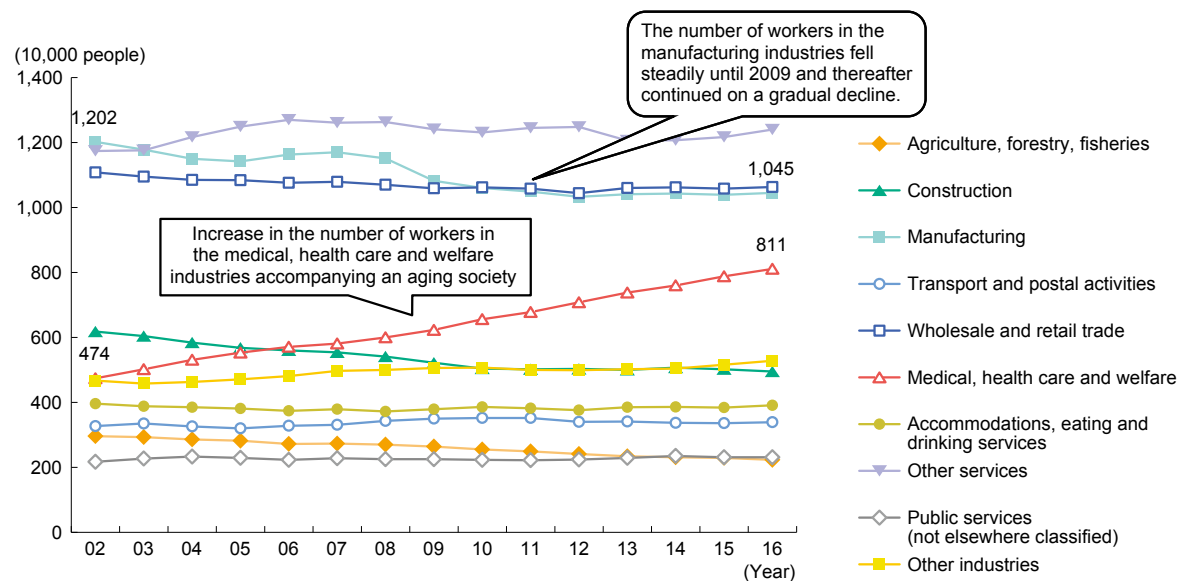


Sources: Recompiled from MIC, *Establishment and Enterprise Census of Japan*; and MIC, METI, *2012 Economic Census for Business Activity*.

- Notes:
1. Industries with the largest number of workers were extracted for each municipality, and the municipalities from which the industries were extracted were expressed by industry. Agriculture and other primary industries were also included within the scope of the survey.
 2. The industrial classification (large classification) for extracting the industries is based on the revised classification of March 2002. The industrial classification for 1986 and 2014 above represents a re-grouping of small industrial classifications.
 3. The services industries above include accommodations, eating and drinking services; education, learning support; compound services; and services (not elsewhere classified) in the large classification.
 4. In cases where there were multiple industries with the largest number of workers in a municipality, priority was placed on the industry with the largest number of business establishments.
 5. Other includes regions that were not included within the scope of the survey at the time of the survey.

This change in industrial structure also brought a large change to the structure of the nationwide number of workers in Japan. While the number of workers in the manufacturing industries is gradually declining, the number of workers in the medical, health care and welfare industry has continued to increase, and has almost doubled from 2002 (Fig. Column 1-3-1 (2)). This shows that the services industries are gaining greater weight in the employment structure in Japan.

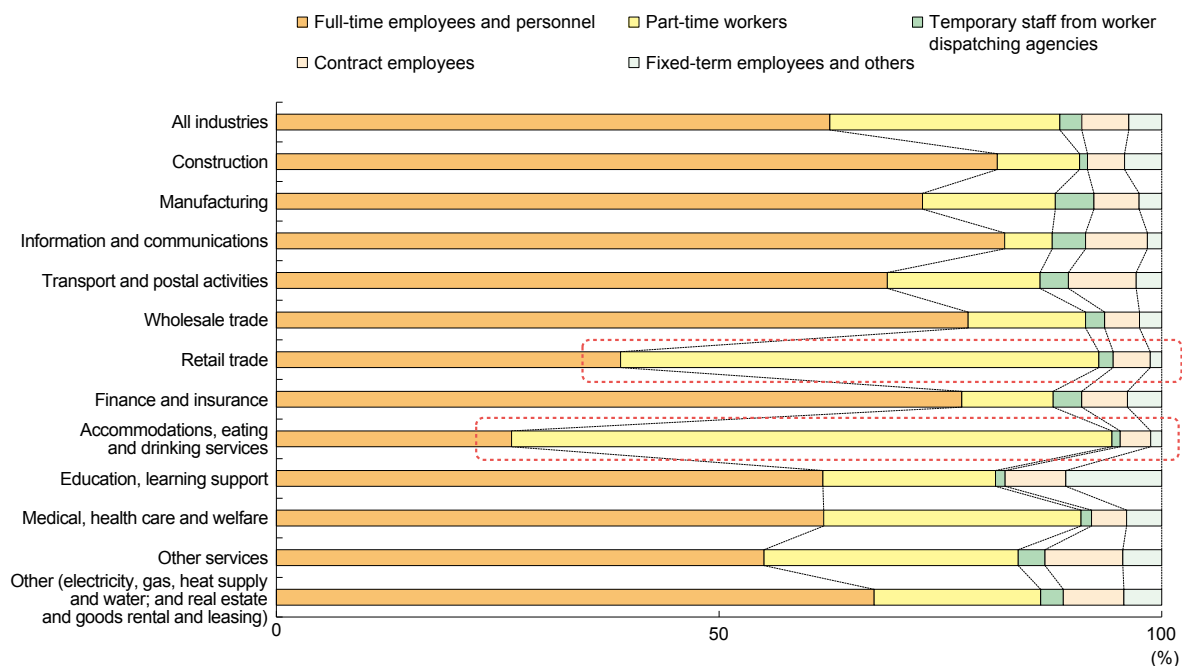
Fig. Column 1-3-1 (2) Number of workers by industry



Source: MIC, *Labor Force Survey*.

- Notes:
1. Interpolated estimates are displayed for 2011, as the survey was suspended in Iwate, Miyagi and Fukushima prefectures due to the Great East Japan Earthquake.
 2. Accompanying the revision of the Japan Standard Industrial Classification (November 2007), the *Labor Force Survey* shows results according to the 12th revised industrial classification from the January 2009 survey, and retroactive results for 2007 and 2009.
 3. Other services here include scientific research, professional and technical services; living-related and personal services and amusement services; education, learning support; compound services; and services (not elsewhere classified). Other industries include mining and quarrying of stone and gravel; electricity, gas, heat supply and water; information and communications; finance and insurance; and real estate and goods rental and leasing.

With respect to the ratio of types of employment by industry, we see that the ratio of workers other than full-time employees and personnel is particularly high in the retail trade and accommodations, eating and drinking services industries, and the ratio of full-time employees is high in the manufacturing industries compared to the average of all industries (Fig. Column 1-3-1 (3)). In the services industries, production and consumption occur simultaneously in terms of both time and space, unlike in the manufacturing industries, which are able to maintain an inventory, so the need to respond to seasonal changes in demand might be related to the large numbers of part-time workers and temporary staff in the services industries. It is thought that the growing weight of the services industries, which are characterized by this high ratio of non-full-time workers accompanying the above-mentioned changes in industrial structure, is behind the large increase in the number of job offers for regular part-time employment and temporary/seasonal employment (including part-time employment).

Fig. Column 1-3-1 (3) Ratio of types of employment by industry (2016 average)

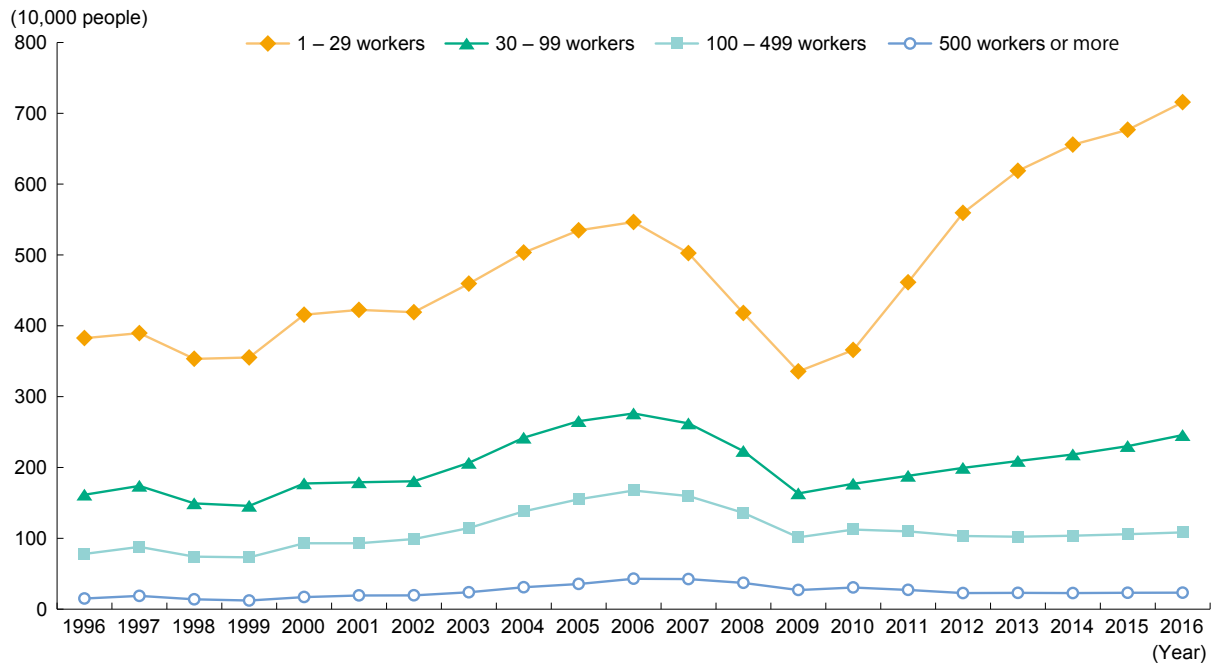
Section 2 Employment environment of SMEs and micro-businesses

1. Labor shortage in SMEs and micro-businesses

Thus far, we examined the present state of the employment environment in Japan and the underlying employment and industrial structures. Here, we shall examine the labor shortage situation, which has an impact on the life stage of SMEs, and discuss the employment trends of job seekers and factors related to job separation

and entry.

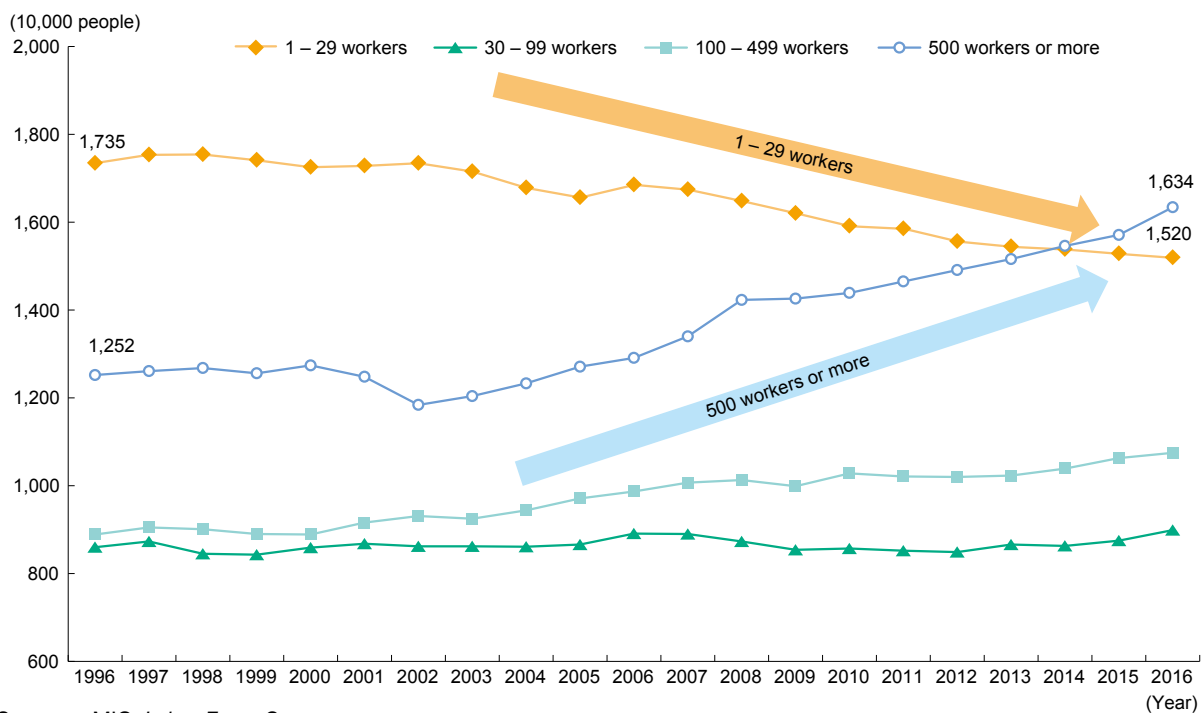
First, when we examine the number of new job offers by workforce size as an indication of the trend of job offers, we see that job offers particularly by business establishment with 29 workers or less have increased significantly since 2009 (Fig. 1-3-9).

Fig. 1-3-9 Number of new job offers by workforce size of business establishment

Source: MHLW, *Employment Referrals for General Workers*.

Next, we shall look at the actual number of workers by workforce size. Over the past twenty years, the number of workers in enterprises with 500 workers or

more increased by approximately 3.82 million, while the number of workers in enterprises with 29 workers or less decreased by approximately 2.15 million (Fig. 1-3-10).

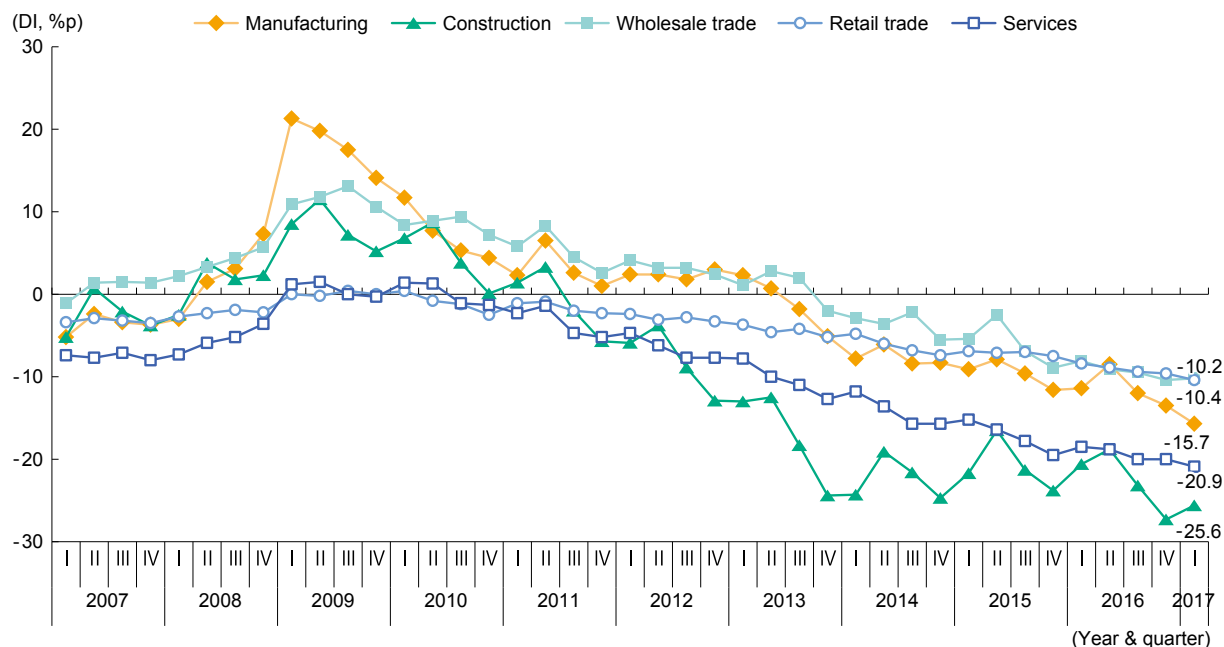
Fig. 1-3-10 Number of non-agriculture or forestry workers by workforce size

Source: MIC, *Labor Force Survey*.

When we examine the shortage and excess of employees in SMEs by industry, we see that a labor shortage has continued in all industries since 2013, and

there is a particularly strong sense of shortage in the construction and services industries (Fig. 1-3-11).

Fig. 1-3-11 DI for excess/shortage of employees by industry



Source: SMRJ & SME Agency, *Survey on SME Business Conditions*.

Note: The DI for excess/shortage of employees is the percentage (%) of enterprises that said they have an excess of employees for the current term, minus the percentage (%) of enterprises that said they have a shortage.

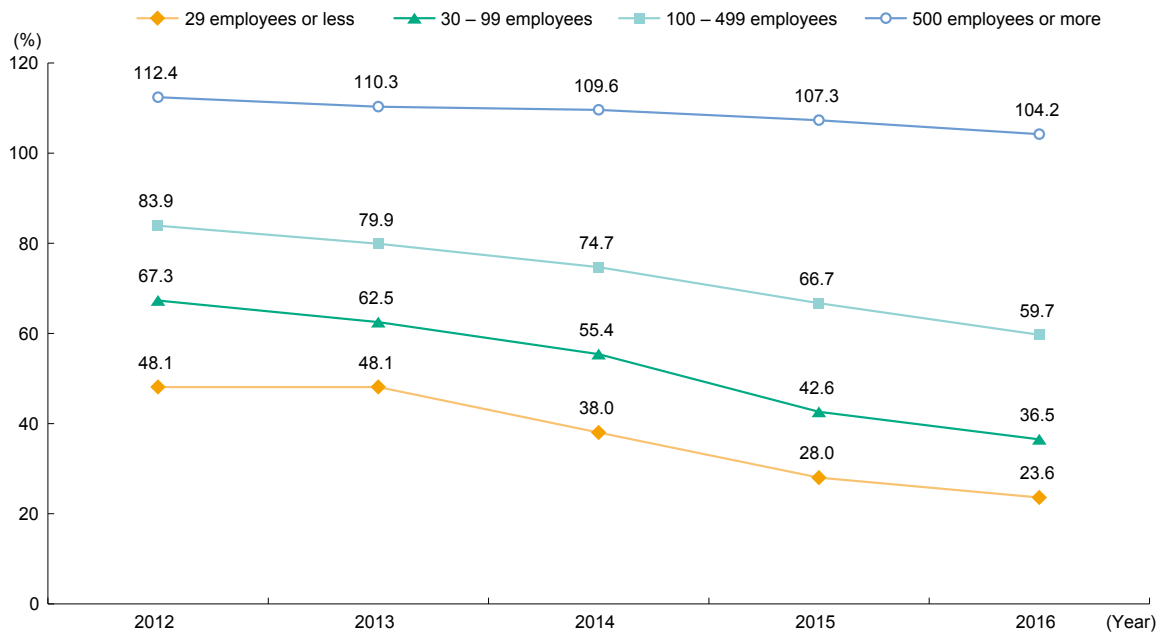
2. Employment trends of job seekers and reasons for job separation and entry

Above, we examined the serious labor shortage in SMEs. Here, we shall examine trends in workers who leave or enter an SME.

First, the ratio of placement to job opening⁸⁾ among new high school graduates declined over the past five

years in all sizes of workforce, and especially among workforce size with 29 employees or less, indicating that enterprises with a small number of employees are finding it difficult to secure high school graduates (Fig. 1-3-12).

8) Ratio of placement to job opening is an indicator of the rate at which job openings are filled.

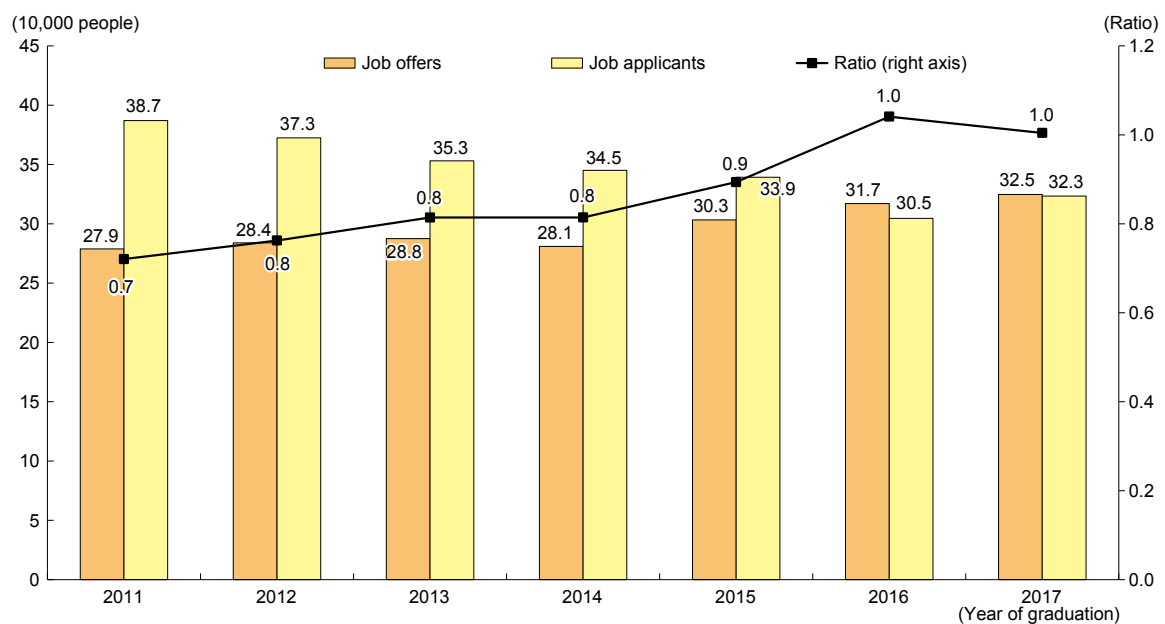
Fig. 1-3-12 Ratio of placement to job opening among high school graduates, by workforce size

Source: MHLW, *Employment Referrals for New School Graduates*.

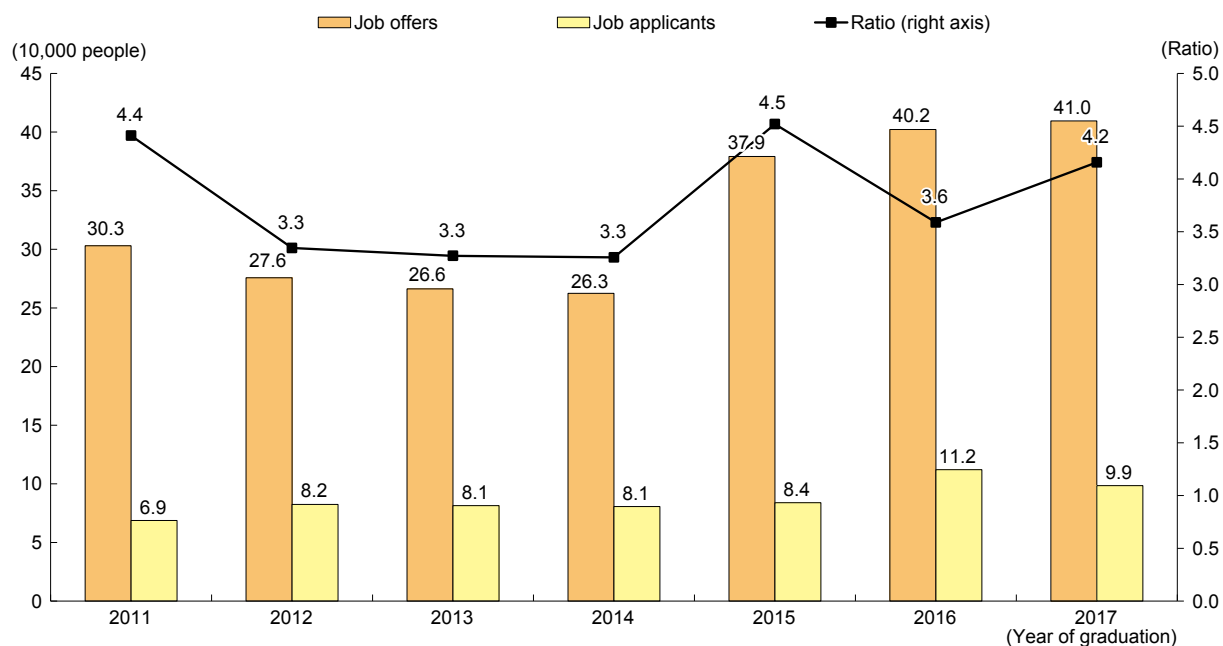
Notes: 1. The above yearly figures for new school graduates are based on the number of job seekers handled by public employment security offices and schools and their status of employment.
2. Ratio of placement to job opening = (number of job seekers employed / number of job openings) × 100

Next, let us examine the ratio of job offers to new university graduates. Among enterprises with 300 workers or more, the ratio falls below 1, and there are more job applicants than the number of job offers or mostly same in

number, but among enterprises with 299 workers or less, the ratio is generally around 3 or 4, with more job offers than the number of job seekers (Fig. 1-3-13 (1), (2)).

Fig. 1-3-13 (1) Number of university graduate job applicants and prospective university graduate job applicants to enterprises with 300 workers or more

Source: Recruit Works Institute, *Works University Graduate Job Offers to Job Seekers Ratio Survey*.

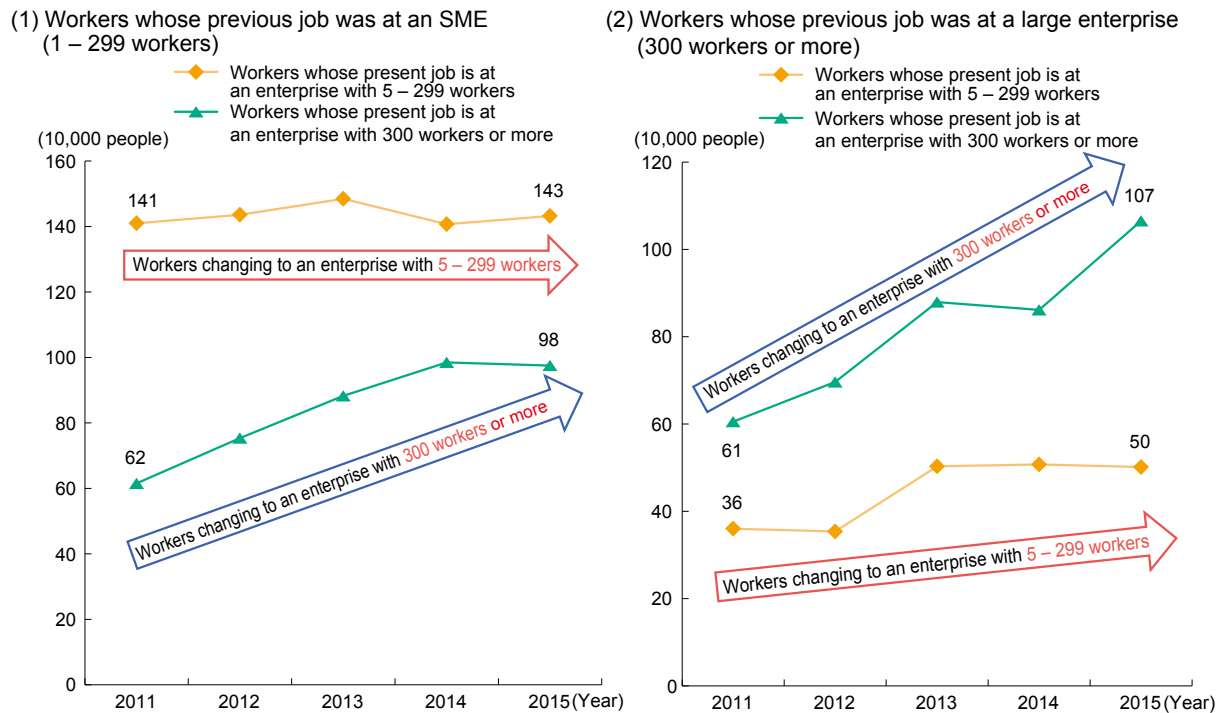
Fig. 1-3-13 (2) Number of university graduate job applicants and prospective university graduate job applicants to enterprises with 299 workers or less

Source: Recruit Works Institute, *Works University Graduate Job Offers to Job Seekers Ratio Survey*.

Let us also take a look at the trends of workers who change jobs. Under the definition of SMEs as enterprises with 299 workers or less and large enterprises as those with 300 workers or more, workers who change jobs between SMEs and large enterprises increased as a whole from 2011 to 2015, but job changes between SMEs maintained a level trend, while job changes between large enterprises increased significantly, and job changes from SMEs to

large enterprises also increased considerably compared to changes from large enterprises to SMEs (Fig. 1-3-14).

The trend in job changes in 2015 shows that 500,000 workers switched from large enterprises to SMEs, and 980,000 switched from SMEs to large enterprises, such that among SMEs, there were more workers who left to work for a large enterprise than those who left a large enterprise to work for an SME.

Fig. 1-3-14 Number of workers changing jobs by size of present enterprise, in terms of the workforce size of their previous enterprise

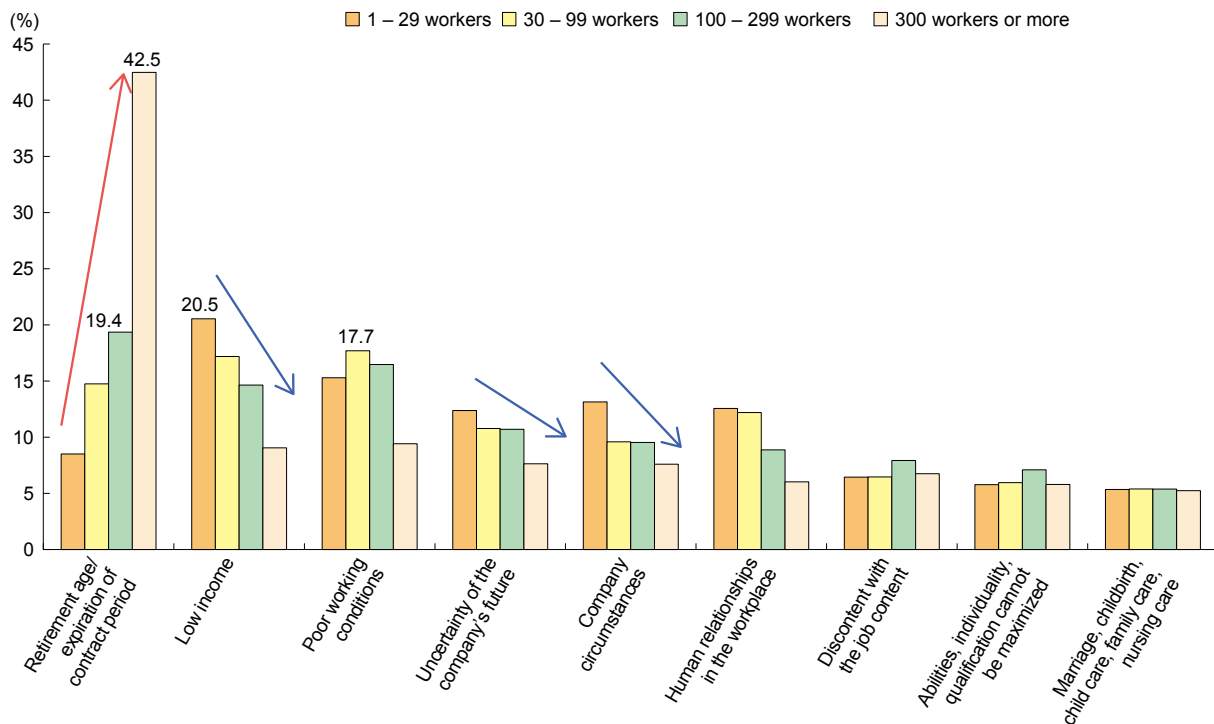
Source: Prepared based on MHLW, *Survey on Employment Trends*.

Next, let us examine the reasons why workers who change jobs choose a large enterprise as their next place of employment. First, with regard to the reasons for leaving their previous job, the largest reason by workforce size of previous enterprise was “low income” (20.5%) in enterprises with 1 to 29 workers, “poor working conditions” (17.7%) in enterprises with 30 to 99 workers, and “retirement age/expiration of contract period” (19.4%, 42.5%) in enterprises with both 100 to 299 workers and 300 workers or more (Fig. 1-3-15).

The ratios for “low income,” “uncertainty of the company’s future,” “company circumstances,” “human relationships in the workplace,” and “retirement age/expiration of contract period” as reasons for changing jobs particularly differed among workforce sizes. The ratio of the first four reasons declined as workforce size became larger, and the fifth reason increased as workforce

size became larger. In SMEs, the income aspect was the largest reason for leaving a job, and the ratio of separation due to feelings of uncertainty about the future and due to company circumstances was also higher compared to large enterprises. The largest reason for leaving a large enterprise, on the other hand, was retirement age/termination of contract period, indicating that many employees work until retirement age or until expiration of the term of a fixed-term employment.

The ratio of personal reasons, such as “marriage, childbirth, child care, family care and nursing care,” and reasons related to the job, such as “discontent with the job content” and “abilities, individuality, qualification cannot be maximized,” was a mere 5% or so in all workforce sizes, and did not show any large difference among workforce sizes.

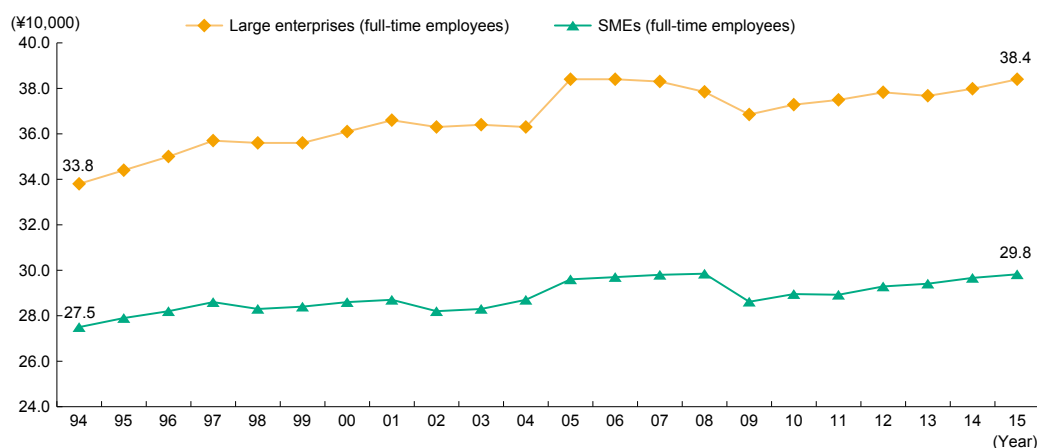
Fig. 1-3-15 Ratio of reasons for job separation, by workforce size of previous enterprise

Source: Recompiled from MHLW, 2014 *Survey on Employment Trends*.

Note: Job separation reasons exclude “other reasons (incl. temporary transfers)” and “unidentified.”

In SMEs, “low income” was given as the reason for job separation at a high rate. When looking at the amount of salary by enterprise size, we see that a disparity in wages still exist between large enterprises and SMEs, ranging

from ¥275,000 to ¥298,000 in SMEs and from ¥338,000 to ¥384,000 in large enterprises in the past twenty years (Fig. 1-3-16).

Fig. 1-3-16 Salaries by enterprise size

Source: Recompiled from MHLW, *Basic Survey on Wage Structure*.

- Notes:
1. The figures for full-time employees before 2004 are the figures for general workers who are employed for an indefinite term, and those for after 2005 are the figures for general workers who are full-time employees or personnel in a business establishment.
 2. General workers refer to regular workers other than short-term workers.
 3. Short-term workers refer to workers who work shorter hours per day or the same hours per day but fewer days per week than general workers in the same business establishment.
 4. Regular workers refer to workers who fall under either of the following descriptions.
 - (a) Those who are employed for an indefinite term or for a specified term of more than a month.
 - (b) Those who are employed daily or for a specified term within a month and who have worked more than 18 days per month during the two months prior to the survey month.
 5. Salary is the amount of cash that is routinely paid, and is the sum of the basic salary that is paid as the June salary every year and prescribed allowances, including overtime pay.
 6. Enterprises with a total of 299 regular workers or less (99 workers or less for wholesale trade, services, retail trade, and eating and drinking establishments) are considered as SMEs, and enterprises other than SMEs are considered as large enterprises.

A look at wage increases by workforce size shows that enterprises with 100 to 299 workers generally have lower wage increases compared to enterprises of other sizes

(Fig. 1-3-17). However, wages are steadily increasing in these enterprises, and the difference with other workforce sizes has begun to decrease in recent years.

Fig. 1-3-17 Wage increases (rate of average rate revision per worker)

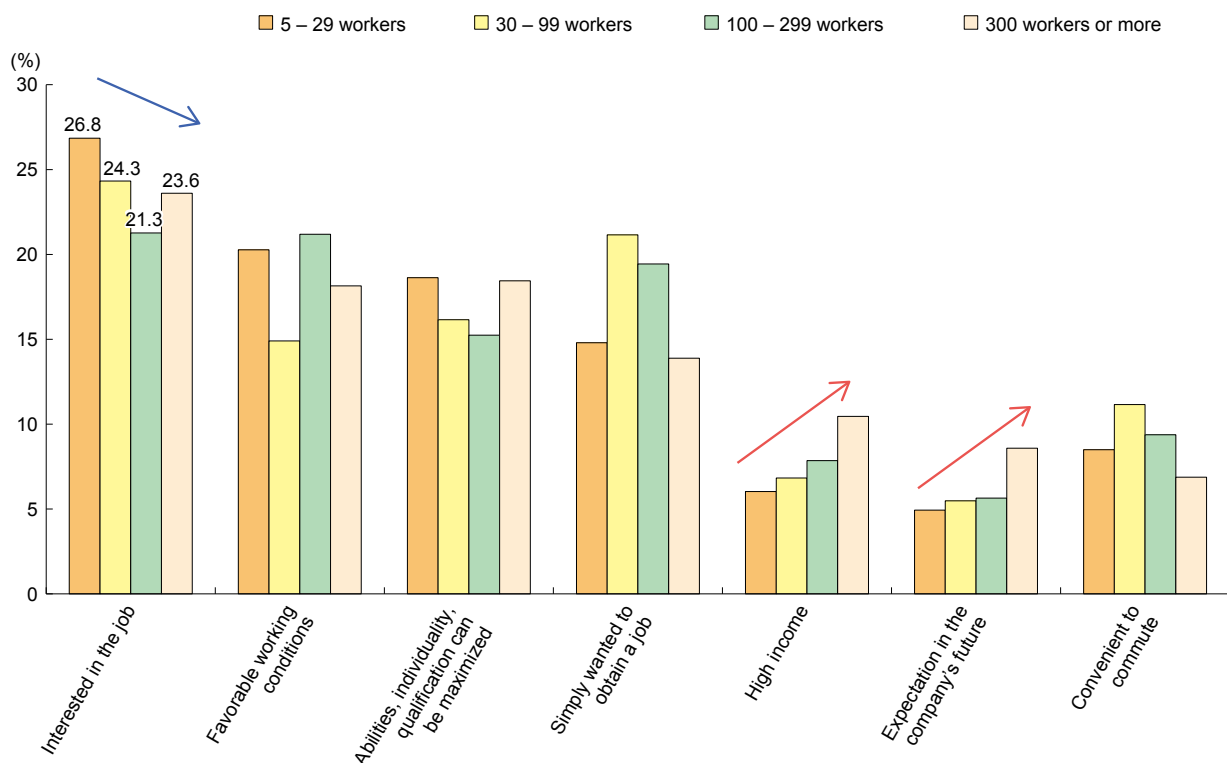
Source: MHLW, *Survey on Wage Increase*.

- Notes:
1. The above is a summary of enterprises that have revised their wages, enterprises that plan to revise their wages and have already determined the amount, and enterprises that do not plan to revise their wages.
 2. Wage revisions include revisions of regular raises, increases in basic pay, and allowances for all or some regular workers, and also include reduction of wages, such as decreases in basic pay, cuts in wages, etc.
 3. Regular workers in this survey refer to workers who are employed for an indefinite term.
 4. The rate of wage revision per worker is based on the weighted average of the number of regular workers.

Next, the largest reason for job entry by size of present workforce size is “interest in the job” in all workforce sizes, indicating that foremost importance is placed on the content of the job, regardless of workforce size (Fig. 1-3-18).

When we look at reasons that particularly differ between workforce sizes, we see that the ratios of “expectation in the company’s future” and “high income” are not necessarily high, but are higher among larger enterprises, in reverse of the reasons for job separation.

Fig. 1-3-18 Ratio of reasons for job entry, by workforce size of current enterprise



Source: Recompiled from MHLW, 2014 Survey on Employment Trends.

Note: Job entry reasons exclude “other reasons (incl. temporary transfers)” and “unidentified.”

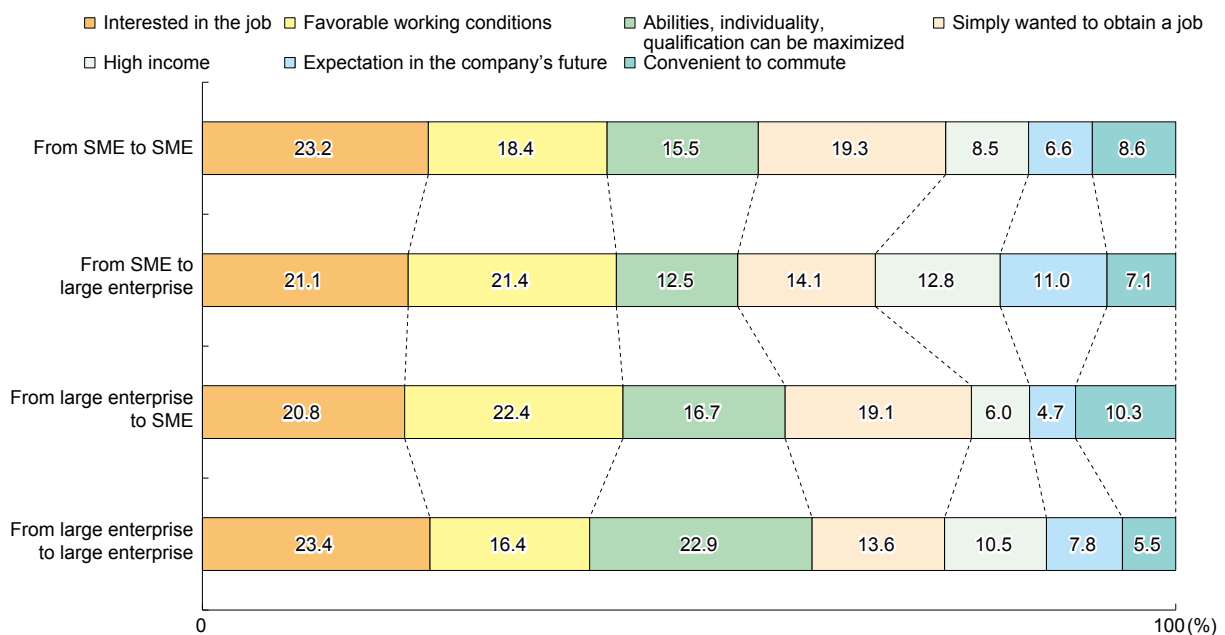
Thus far, we have examined the reasons for job separation and job entry by workforce size. Below, we

shall examine the reasons for job changes between SMEs and large enterprises.

The largest reason for switching from an SME to a large enterprise is “favorable working conditions” (21.4%), while the largest reason for switching from an SME to an SME is “interested in the job” (23.2%) (Fig. 1-3-19). Additionally, the ratio of reasons related to income and the future prospects of the company is higher among job switches from an SME to a large enterprise compared to changes from an SME to an SME.

Next, the largest reason for changing jobs from a large enterprise to an SME is “favorable working conditions” (22.4%), while the largest reason for changing from a large enterprise to a large enterprise is “interested in the job” (23.4%). Furthermore, the ratio of “simply wanted to obtain a job” (19.1%) as the reason for changing jobs is higher among workers changing jobs from a large enterprise to an SME.

Fig. 1-3-19 Ratio of reasons for job entry by size of previous and present enterprise



Source: Recompiled from MHLW, *2014 Survey on Employment Trends*.

Notes: 1. Job entry reasons exclude “other reasons (incl. temporary transfers)” and “unidentified.”

2. Large enterprises here refer to enterprises with 300 workers or more. SMEs refer to enterprises with 299 workers or less.

Above, we found that while the number of SME job offers is increasing, the numbers of new graduates and workers changing jobs to SMEs are not increasing as much as large enterprises, such that the number of workers in SMEs is declining and there is a strengthening sense of labor shortage. Underlying this situation are issues related to the employment structure as a whole. For example,

there appears to be a mismatch between occupations for which enterprises seek workers, and occupations that are sought by job seekers, and a difference in working conditions that large enterprises and SMEs can provide in response to conditions sought by job seekers. In fact, the largest reason for job separation from an enterprise with a small number of workers is related to income,

as a reflection of the disparity that exists between large enterprises and SMEs in regard to actual wage levels and wage increases.

On the other hand, the reasons for job entry place weight on the job content in both large enterprises and SMEs, and the reasons for changing jobs from a large enterprise to an SME include interest in the job, and favorable working conditions such as working hours and holidays. Therefore, SMEs that offer attractive jobs

and flexible working styles have the potential to secure workers even amid a labor shortage.

It is also important for SMEs to address the shortage of workers by actively utilizing human resources that are not presently participating in the labor market, given that Japan's labor environment is in a state of structural unemployment and the working population is expected to decline in the future.

Section 3 Summary

Part I Chapter 2 focused on the life cycle of SMEs, including market entries and exits and the growth of continuing enterprises, and assessed the present state of SMEs, quantitatively analyzed the effects of the life cycle on SME productivity as a whole based on actual corporate data, and analyzed various changes over time and the characteristics of SMEs that have a large impact on SME productivity as a whole.

Part I Chapter 3 focused on human resources, which pose an issue throughout the life cycle of SMEs, and examined changes in the employment environment in Japan in the context of a rapidly aging society, as well

as analyzed the present state of labor shortage and factors behind the mismatch between enterprises and job seekers. As a whole, a wage disparity exists between large enterprises and SMEs, but it was found that workers choose SMEs as a place of employment if they offer attractive jobs and flexible working styles.

Part II will focus on the life cycle of SMEs and the human resources that support them, and analyze in detail their growth through startup, business succession and new business advancements, and their initiatives for securing human resources.

Column 1-3-2 Initiatives for realizing wage increases in SMEs

This column examines support policies that help SMEs create an environment that is conducive to increasing productivity as a means for realizing wage increases, and support policies that provide incentives for increasing wages.

[Support policies for productivity improvement]

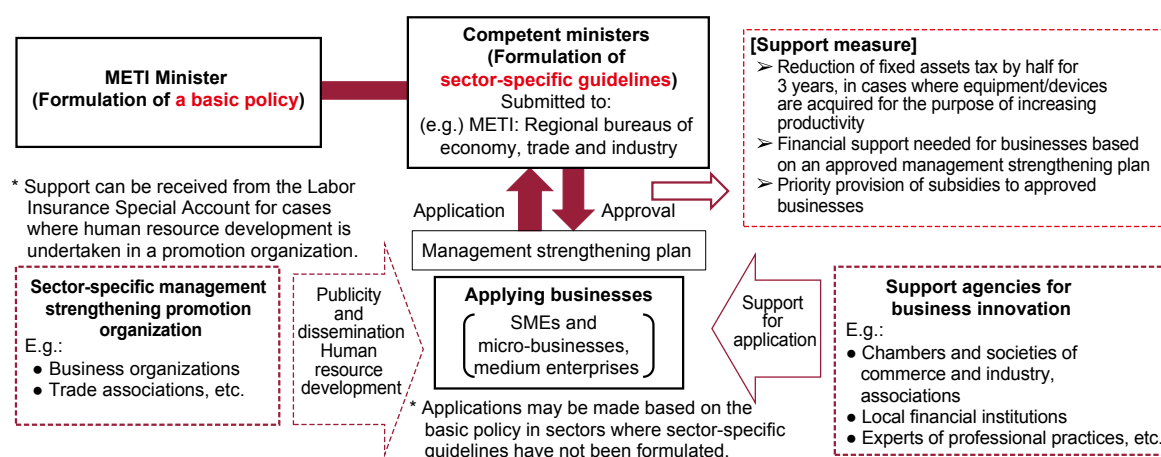
Act on Strengthening the Management of SMEs, etc.

The Act on Strengthening the Management of SMEs, etc. came into force on July 1, 2016, as a policy framework for increasing productivity in SMEs, etc. Under the Act, businesses can receive taxation and financial support measures by preparing a management improvement plan based on sector-specific guidelines and receiving approval for it.

More specifically, the scheme aims to achieve the following.

- (1) To have ministers governing each industry create guidelines based on best practices in productivity improvement for each industry.
- (2) To support SMEs and micro-businesses that engage in initiatives in line with these guidelines by providing financial and taxation measures, including a reduction of fixed assets tax.
- (3) To encourage the initiatives of SMEs and micro-businesses through the support of regional support organizations such as societies and chambers of commerce and industry and local financial institutions.

Fig. Column 1-3-2 (1) Scheme of the Act on Strengthening the Management of SMEs, etc.



Expansion of the fixed assets tax reduction measure, establishment of a tax system for strengthening SME management (FY2017 tax revision)

To support capital investment toward increasing productivity, the fixed assets tax reduction measure was expanded⁹⁾ to include devices and fixtures that are used in the services industries (refrigerated display shelves, assistive nursing wear, etc.) and facilities accompanying buildings (air-

9) In the special exemption of fixed assets tax, the tax reduction measure for facilities that have been newly included in the scope of the measure (devices and fixtures, facilities accompanying buildings, etc.) is limited to industries in which labor productivity is below the nationwide average in regions where the minimum wage is above the nationwide average (Saitama, Chiba, Tokyo, Kanagawa, Aichi, Kyoto, Osaka). In the other 40 prefectures, the measure applies to all industries.

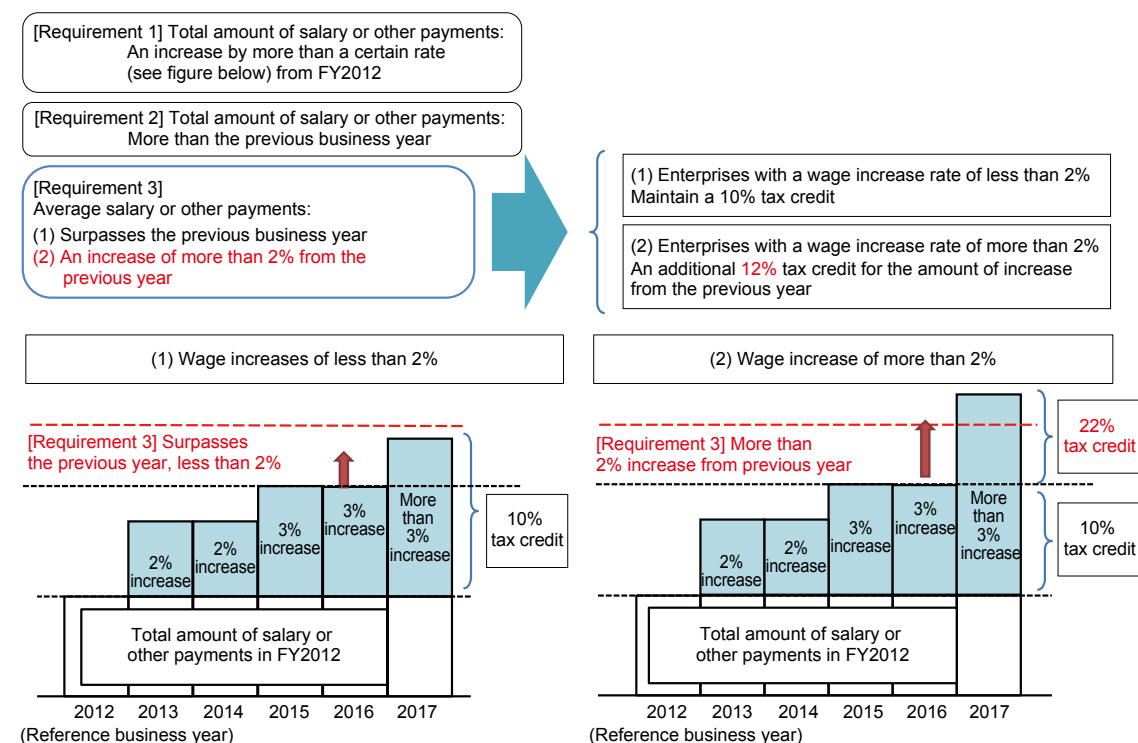
conditioning equipment, elevators, etc.) within the scope of facilities eligible for tax reduction, and a tax system for strengthening SME management was established within the corporate tax system.

[Establishment of an incentive for realizing wage increases]

Review of the income growth promotion tax system (FY2017 tax revision)

In addition to the support measure offered until fiscal 2016 (10% tax credit on increases in salary and other payments from FY2012), SMEs that have increased wages by more than 2% compared to the previous fiscal year will be eligible to receive an additional 12% tax credit on increases in salary and other payments from the previous year.

Fig. Column 1-3-2 (2) Key points of the expansion of the income growth promotion tax system



Column 1-3-3 Discussions toward diverse working styles

The Ministry of Economy, Trade and Industry launched study groups to assess the recent increase in flexible working styles represented by dual occupations, side businesses, and working styles that are not bound by employment relationships, and to identify issues from the perspective of invigorating the industries, including SMEs. This column introduces the information obtained from discussions in two study groups.

[Business startups and creation of new businesses through dual occupations and side businesses]

■ Study group on business startups and creation of new businesses through dual occupations and side businesses

(Present status of dual occupations and side businesses)

Promoting dual occupations and side businesses not only contributes to increasing market entries by potential entrepreneurs, but is also important to SMEs that face a shortage of workers.

According to the *FY2012 Employment Status Survey* of the Ministry of Internal Affairs and Communications, approximately 5.7% of employed workers (approx. 3.68 million) seek to engage in dual occupations or side businesses. It is worth noting that the middle and advanced age group of people in their 50s to 60s compose the volume zone of dual occupations and side businesses.

(Issues)

For one thing, business managers lack proper understanding of the advantages of dual occupations and side businesses, and for another, various risks and concerns exist regarding working hours, management of industrial accidents, leakage of information, etc.

Additionally, some employment regulations forbid dual occupations and side businesses. According to a survey conducted by the SME Agency in February 2015, approximately 85.3% of enterprises do not allow their employees to engage in dual occupations or side businesses.

(Response policies)

(1) Fostering social momentum through the introduction of best practices, corporate awards, etc.

The fact that dual occupations and side businesses have their advantages, and that risks are manageable, shall be disseminated through the introduction of best practices, recommendations, etc.

(2) Creation of “leading cases” in the regions

To create best practices in the regions, corporate employees who seek to engage in dual occupations or side businesses shall be supported in their efforts, under the FY2017 subsidy for enterprises that support business startups.

(3) Establishment of a consultation framework for managers and employees

A list of consultation centers that utilize an existing startup support system shall be created, to establish a framework for providing expert consultation to potential entrepreneurs who are considering starting a business through their dual occupation or side business.

(4) Coping with institutional issues

Model employment regulations shall be revised, and ministerial proposals on the formulation of guidelines concerning dual occupations and side businesses shall be implemented.

[Effective utilization of human resources through diverse working styles]

Study group on new working styles that are not bound by employment contracts

(Working styles that are not bound by employment relationships)

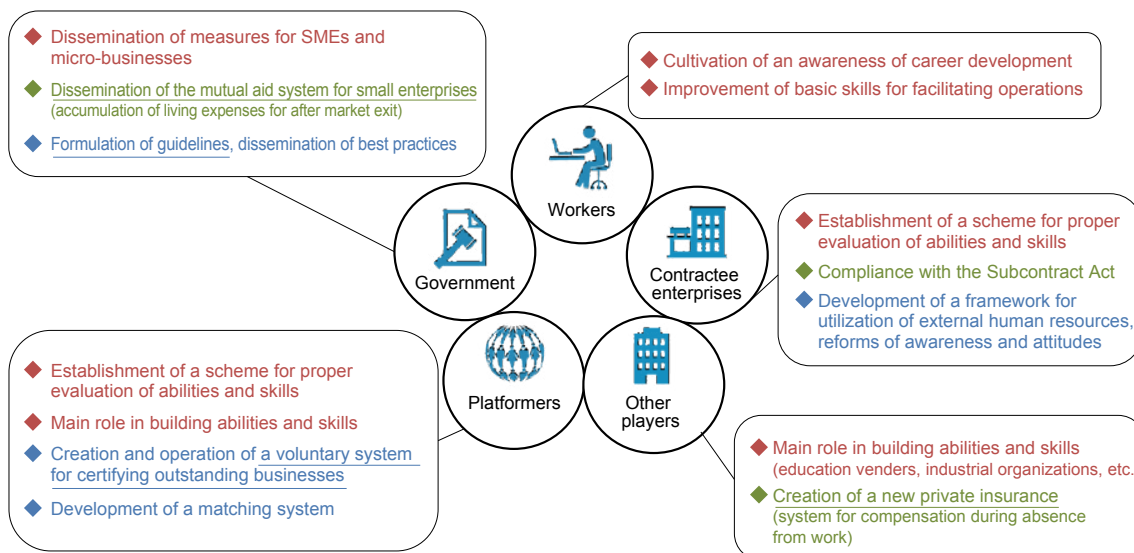
When considering future changes in Japan's industrial structure, it will be important to embrace freelance/alliance work and other such working styles that are not bound by employment relationships as "optional" working styles to workers who voluntarily seek flexible working styles or who have constraints such as of child care or nursing care.

According to surveys of the Ministry of Economy, Trade and Industry conducted in FY2016¹⁰⁾, the majority of workers are "satisfied" and "wish to continue their present working style," but only 20% of enterprises introduce freelance work.

(Issues and response policy)

Workers who are not bound by employment relationships, such as freelance workers, face different issues according to their skills, environment, and other such factors, and thus the support they require also differs.

Working styles that are not bound by employment relationships could be established as optional working styles by (1) providing skills improvement and educational training, (2) creating environments that provide a sense of security to workers, and (3) accelerating initiatives by enterprises.



* In the medium to long term, it will become necessary to deepen discussions on labor laws and social security.

10) FY2016 Industrial Economic Research Commissioned Project on "Survey of work style reforms in enterprises" (March 2017, Mizuho Information & Research Institute, Inc.) and FY2016 Industrial Economic Research Commissioned Project on "Survey on work style reforms that respond to new industrial structural changes" (March 2017, Nikkei Inc.)

Part II

Micro business life cycle

Chapter 1

New business startup/establishment

In Part I, we looked at the conditions for establishing businesses in Japan and at the importance of recurrence in the life cycles of SMEs, which are essential to the future growth of Japan's economy. In this chapter, we target the startup or establishment phase of that life cycle for more detailed analysis. Specifically, Section 1 will take an overall view of the conditions for establishing businesses in Japan in comparison with other countries, while in Section 2 we will analyze the conditions in the establishment phase for entrepreneurs interested in starting up a business and the problems they face. Then, in Section 3, we will look at the conditions in each of the growth stages during and after business establishment, and identify the problems that arise. This will enable us to consider the sorts of support policies that are required in order to increase the number of future businesses established.

Section 1 Conditions for establishing businesses in Japan

In this section, we will use various statistics and surveys to examine the conditions for establishing businesses in Japan over time and compare business startup activity

internationally to shed more light on the situation around business startups in Japan.

1. Conditions for establishing businesses in Japan

We begin by use the *Employment Status Survey* conducted by the Ministry of Internal Affairs and Communications (MIC) to gain an overview of the trends over several years in the conditions for the people responsible for establishing businesses, namely the entrepreneurial hopefuls who wanted to start up a business and the entrepreneurs who actually succeeded in doing so. We can then use this analyze the conditions for establishing businesses in Japan.

(1) Trends in people responsible for business startups

Fig. 2-1-1 shows the trends over time in the numbers of entrepreneurial hopefuls, people making startup preparations and entrepreneurs who are responsible for starting up businesses in Japan. The figure indicates a declining trend in the numbers of entrepreneurial

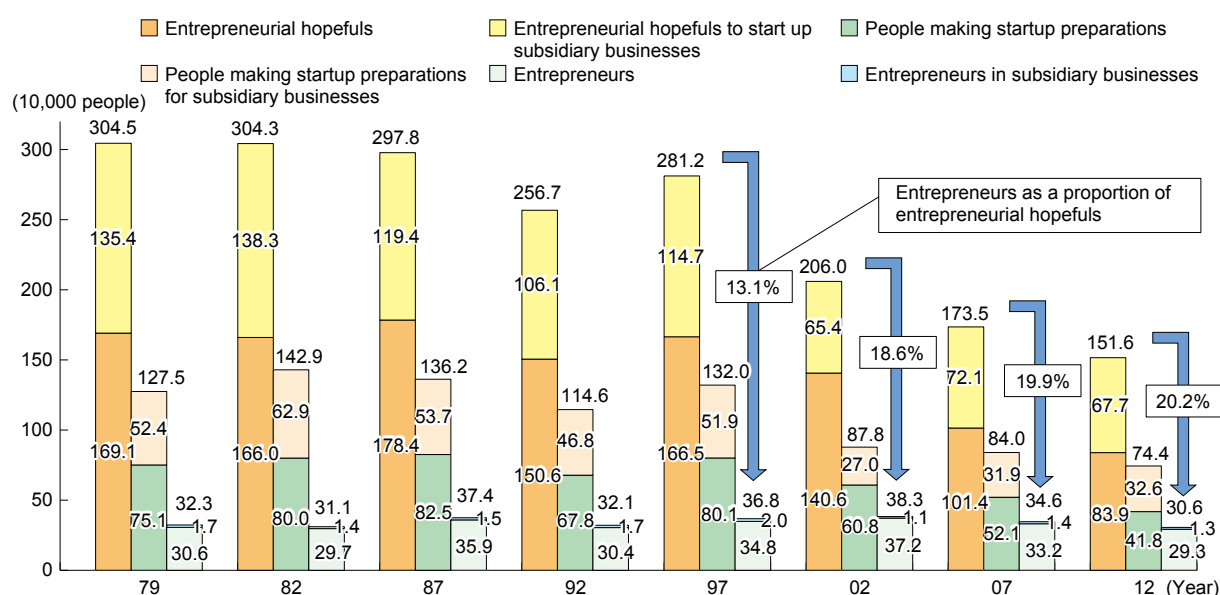
hopefuls and people making startup preparations from 1997 onwards, with the numbers of entrepreneurs falling steadily from 383,000 in 2002 to 346,000 in 2007 and down to 306,000 in 2012. On the other hand, the speed of decline among people making startup preparations and entrepreneurs is slower than for entrepreneurial hopefuls, such that the number of entrepreneurs as a proportion of entrepreneurial hopefuls actually rose between 1997 and 2012, increasing from 13.1% to 18.6%, 19.9% and then to 20.2%. So we can see that, while there was a marked decline in the number of entrepreneurial hopefuls, entrepreneurs have emerged in consistent numbers each year¹⁾.

1) In summarizing trends in the numbers of entrepreneurs here, “entrepreneurs” are defined as “those people who have changed jobs or found a new job within the last year who have also become officers of a company, etc. or self-employed persons.” However, in the MIC *Employment Status Survey*, the “Did you start your own business?” query was only added as of the 2007 survey. If we single out those people who responded positively to the “Did you start your own business?” query in 2007 and 2012, the numbers of entrepreneurs who responded “Started the business myself” in 2007 and 2012 were 181,000 (including 7,000 who started subsidiary or secondary businesses) and 169,000 (including 6,000 who started subsidiary or secondary businesses) respectively. The figures for entrepreneurs shown in Fig. 2-1-1 do not single out those people who started up their own businesses, so we must bear in mind that they may include self-employed persons and people who became company CEOs through factors such as business succession, without themselves having started up the business.

If we also look at the figures for entrepreneurial hopefuls considering starting up secondary or subsidiary businesses or people making startup preparations for such businesses (hereinafter referred to as “entrepreneurial hopefuls to start up subsidiary businesses” and “people making startup preparations for subsidiary businesses” respectively), along with entrepreneurs who established secondary or subsidiary businesses (hereinafter “entrepreneurs in subsidiary businesses”), entrepreneurs hoping or preparing to start up subsidiary businesses as a proportion of all entrepreneurs hoping or preparing to start up a business have in each case been increasing since 2002. (People hoping to start up subsidiary businesses as a proportion of all entrepreneurial hopefuls made up

31.7% of the total in 2002, 41.6% in 2007 and 44.7% in 2012. People making startup preparations for subsidiary businesses as a proportion of all people making startup preparations made up 30.8% of the total in 2002, 38.0% in 2007 and 43.8% in 2012.) However, while entrepreneurs in subsidiary businesses have also been making up an increasing proportion of all entrepreneurs since 2002 (2.9% in 2002, 4.0% in 2007 and 4.2% in 2012), the proportions are lower than for entrepreneurial hopefuls and people making startup preparations. This indicates that even though there is an increased focus on starting up secondary or subsidiary businesses as a new way of working, few businesses are actually established in this way.

Fig. 2-1-1 People responsible for business startups



Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. “Entrepreneurial hopefuls” here refers to employed persons who responded that they are looking to change jobs and “wish to start their own business”, or unemployed persons who responded that they “wish to start their own business”.
 2. “Entrepreneurial hopefuls to start up subsidiary businesses” here refers to employed persons who responded that they are looking to change jobs and “wish to do other jobs plus the current one” or “wish to start their own business”.
 3. “People making startup preparations” here refers to entrepreneurial hopefuls who responded that they are “preparing to start a business”.
 4. “People making startup preparations for subsidiary businesses” here refers to those people hoping to start up a secondary or subsidiary business who responded that they are “preparing to start a business”.
 5. “Entrepreneurs” here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.
 6. “Entrepreneurs in subsidiary businesses” here refers to those who have changed jobs or found a new job within the last year and who have become officers of a company, etc. or self-employed persons, and who are also employed in other work that is different from their current job.

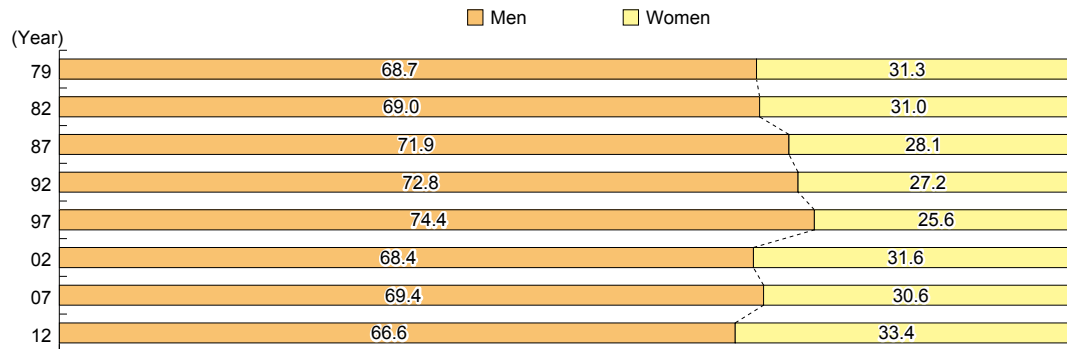
(2) Genders of entrepreneurial hopefuls and entrepreneurs

Fig. 2-1-2 shows the composition of entrepreneurial hopefuls and entrepreneurs by gender, indicating that while the proportion of women among entrepreneurial hopefuls tended to increase from 1997 onwards, female

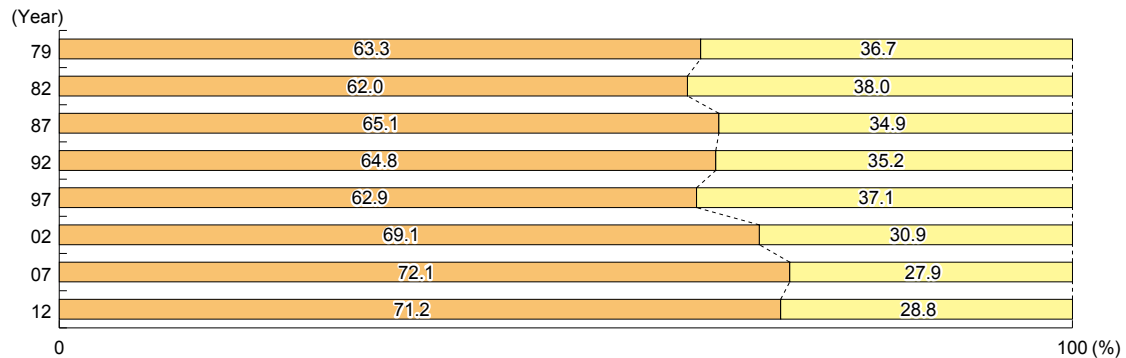
entrepreneurs as a proportion of all entrepreneurs declined over the same period. This suggests that more women have been considering establishing businesses as a way of working in recent years, but few of them have gone on to actually start up a business.

Fig. 2-1-2 Genders of entrepreneurial hopefuls and entrepreneurs

(1) Entrepreneurial hopefuls



(2) Entrepreneurs



Source: Recompiled from MIC, *Employment Status Survey*.

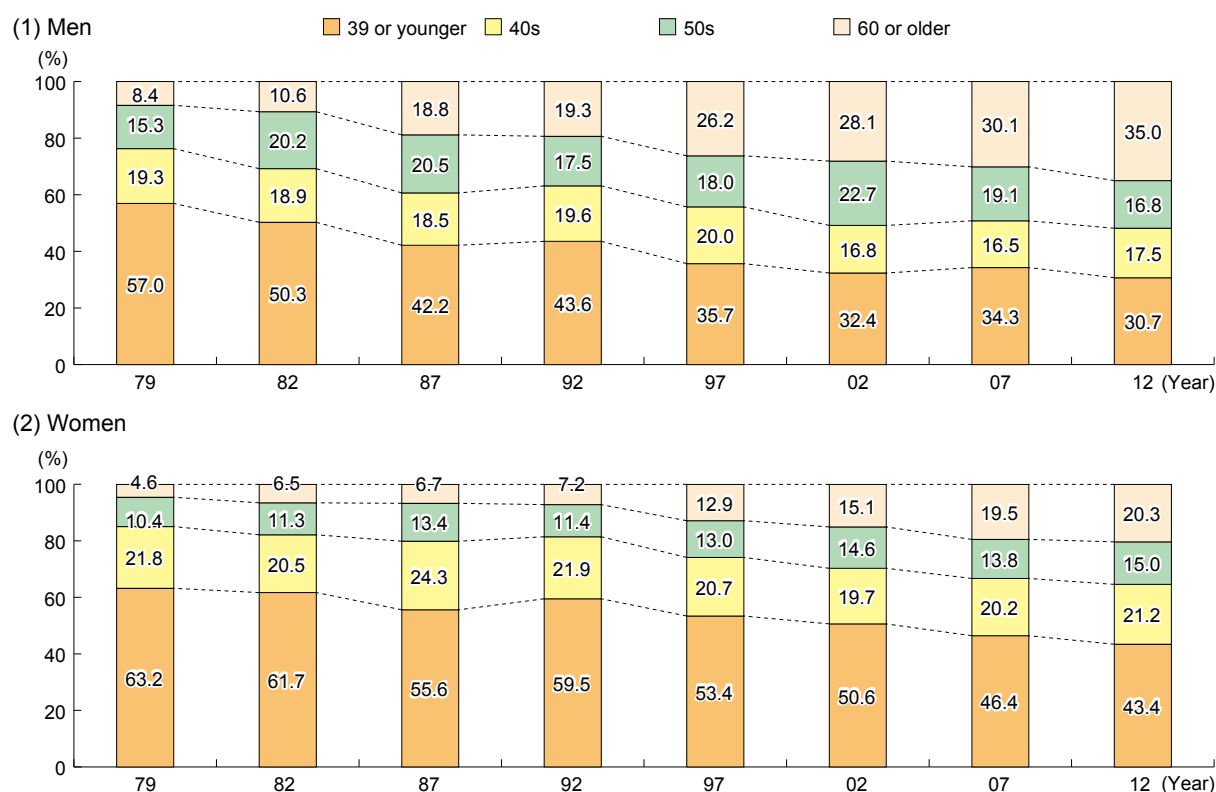
- Notes:
1. "Entrepreneurial hopefuls" here refers to employed persons who responded that they are looking to change jobs and "wish to start their own business", or unemployed persons who responded that they "wish to start their own business".
 2. "Entrepreneurs" here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.
 3. Here, entrepreneurial hopefuls and entrepreneurs do not include entrepreneurs engaged in or hoping to start up secondary or subsidiary businesses.

(3) Ages of entrepreneurs by gender

Next, Fig. 2-1-3 shows the different ages of entrepreneurs according to their gender and clearly shows a trend among both men and women for entrepreneurs aged 60 or older to increase as a proportion of all entrepreneurs since 1979. More recently in 2012, the

proportion of entrepreneurs aged 60 or older was 35.0% for men compared with 20.3% for women, indicating that men make up a higher proportion than women. It seems likely that this is because more men than women have been in salaried positions and have reached retirement age before opting to establish a business as a second career.

Fig. 2-1-3 Ages of entrepreneurs by gender



Source: Recompiled from MIC, *Employment Status Survey*.

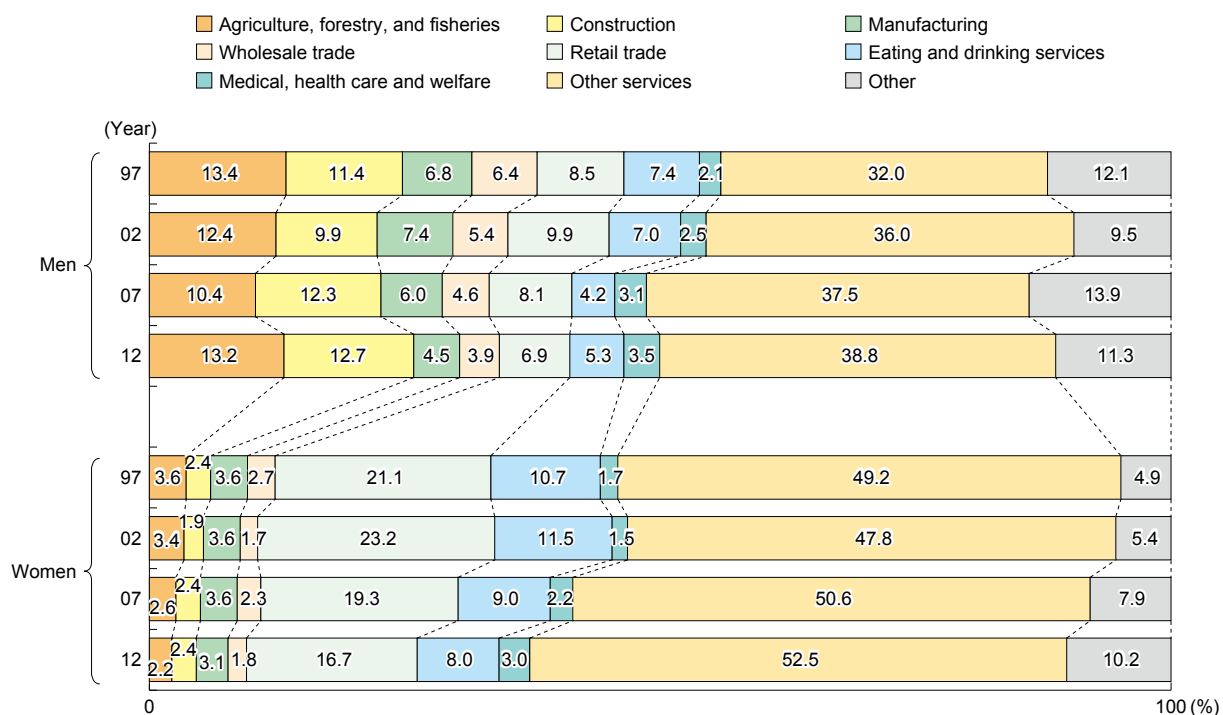
- Notes:
1. "Entrepreneurs" here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.
 2. Here, entrepreneurs do not include entrepreneurs engaged in secondary or subsidiary businesses.

(4) Composition of entrepreneurs by industry

Next, Fig. 2-1-4 shows the trends in the industry composition of entrepreneurs according to gender. The figure shows a higher proportion of men than women in the primary industries of agriculture, forestry and fisheries and in the construction industry. While the proportions have declined in recent years among both genders in manufacturing, wholesale trade, retail trade and eating and

drinking services, the proportions in the service industries have been rising, particularly in scientific research, professional and technical services, living-related and personal services, amusement services and the education and learning support sector and medical, health care and welfare. Similar trends can be seen for women, with the proportion falling in retail trade and eating and drinking services in recent years, but increasing in other services.

Fig. 2-1-4 Business types of entrepreneurs by gender



Source: Recompiled from MIC, *Employment Status Survey*.

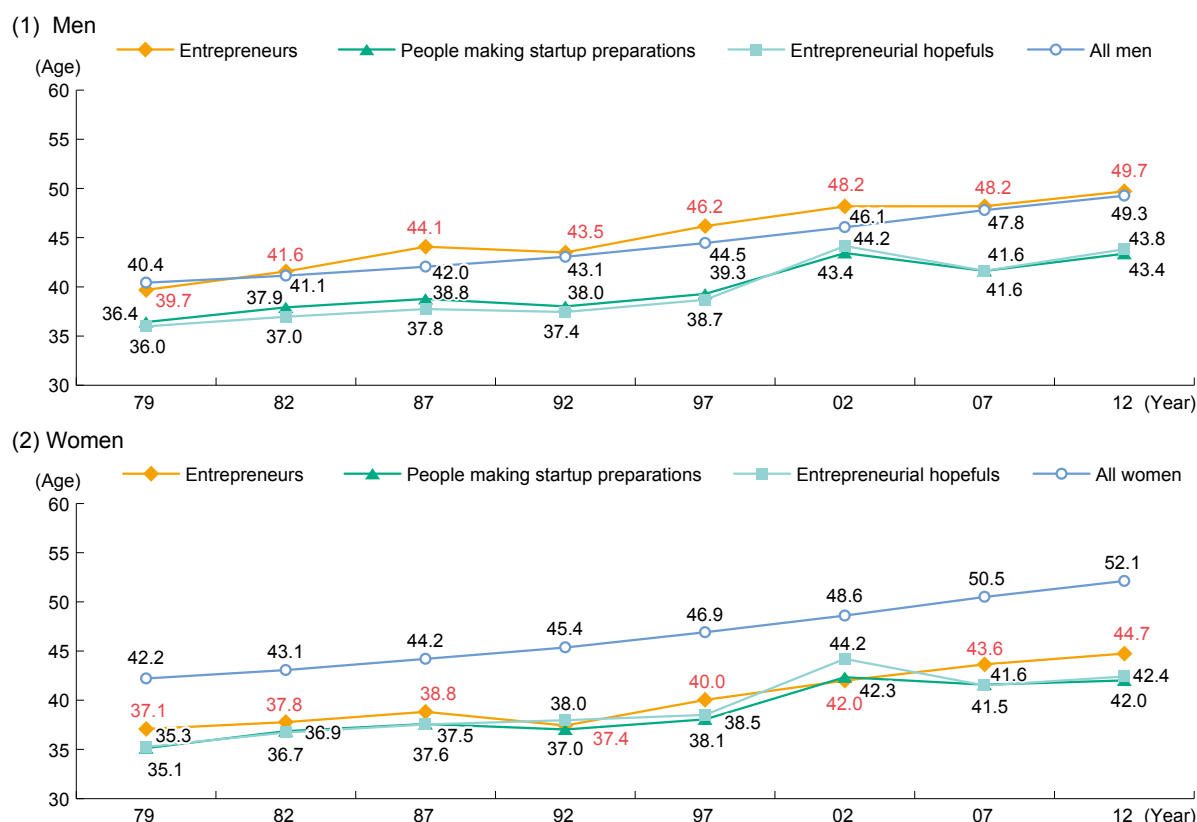
Note: "Entrepreneurs" here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.

(5) Average ages of entrepreneurs, people making startup preparations and entrepreneurial hopefuls

Fig. 2-1-5 shows the trends by gender in the average ages²⁾ of entrepreneurs, people making startup preparations and entrepreneurial hopefuls. The figure indicates that, due to population aging, the average ages of both men and women are rising among entrepreneurs, people making startup preparations and entrepreneurial hopefuls. Among

men, the average age across all men increased 8.9 years from 40.4 to 49.3 between 1979 and 2012. Among male entrepreneurs, the average age has increased even more rapidly over the same period, rising from 39.7 to 49.7, a jump of 10 years exactly. By comparison, among women the average age across all women increased 9.9 years from 42.2 to 52.1 between 1979 and 2012, but among female entrepreneurs, the average age increased only 7.6 years over the same period, rising from 37.1 to 44.7.

Fig. 2-1-5 Average ages of entrepreneurs, people making startup preparations and entrepreneurial hopefuls



Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. "Entrepreneurs" here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.
 2. "People making startup preparations" here refers to entrepreneurial hopefuls who responded that they are "preparing to start a business".
 3. "Entrepreneurial hopefuls" here refers to employed persons who responded that they are looking to change jobs and "wish to start their own business", or unemployed persons who responded that they "wish to start their own business".
 4. Here, entrepreneurs, people making startup preparations and entrepreneurial hopefuls do not include entrepreneurs engaged in or preparing or hoping to start up secondary or subsidiary businesses.

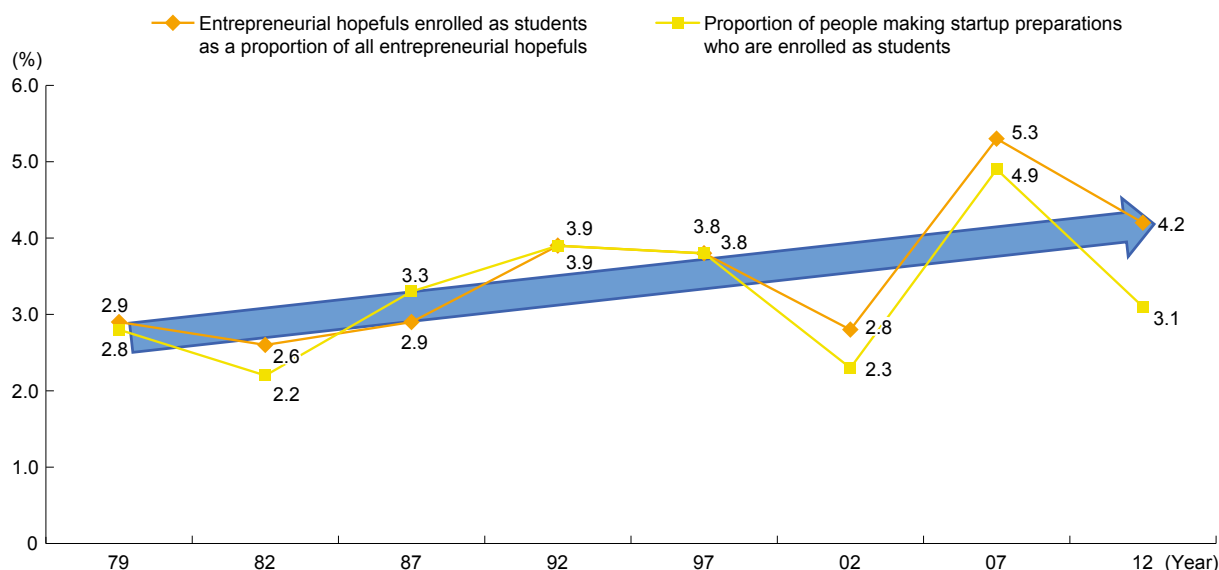
2) "Average age" as used here is an estimated value for average age calculated for entrepreneurs, people making startup preparations and entrepreneurial hopefuls respectively using the estimation multiplication factors calculated for each region, gender, age group and household type in the response samples from the MIC *Employment Status Survey* used to estimate the average age of the entire population.

(6) Changes in entrepreneurial awareness among students

In Fig. 2-1-3 above, we observed a declining trend among both genders in the proportion of entrepreneurs aged 39 or less. Here, based on Fig. 2-1-6, we look at the trends over time for students who are currently studying and are hoping to start up a business as a proportion of

all entrepreneurial hopefuls and for students who are currently studying and are making concrete preparations to start up a business as a proportion of all people making startup preparations. As the figure shows, there is a steadily growing intention to start up a business among students who are currently studying.

Fig. 2-1-6 Entrepreneurial awareness among enrolled students



Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. Here, “entrepreneurial hopefuls enrolled as students as a proportion of all entrepreneurial hopefuls” is calculated as the total number of people who are currently mainly attending school but who also work and want to change jobs and responded “wish to start their own business”, or people who do not work because they are currently attending school and also responded “wish to start their own business”, as a proportion of the total number of entrepreneurial hopefuls.
 2. Here, “proportion of people making startup preparations who are enrolled as students” here refers to those entrepreneurial hopefuls who are currently studying who responded that they are “preparing to start a business” as a proportion of all the people making startup preparations.
 3. Here, entrepreneurial hopefuls and people making startup preparations do not include people hoping or preparing to start up secondary or subsidiary businesses.

Column 2-1-1 High School Student Business Plan Grand Prix

Every year since FY2013, The Japan Finance Corporation (JFC) has held the annual “High School Student Business Plan Grand Prix” for high-school students, which aims to improve awareness of business startups in the young people who will carry that burden for the next generation. The competition promotes business startup training designed to foster the “ability to think and act for oneself”, something seen as essential in the real world (Fig. Column 2-1-1 (1)).

While there are many business ideas contests for university students and working adults, when high-school students become engaged in business planning, issues often arise around market surveys, marketing and income and expenditure planning. The JFC assists students with these issues by dispatching specialist employees working in actual business startup support programs who go out and give lectures to high schools, drawing on the expertise that JFC has gained by financing some 26,000 business startups every year and also support on business plan creation.

Fig. Column 2-1-1 (1) Outline of the Infinite Power of Creativity ∞, High School Student Business Plan Grand Prix

Aim	To promote business startup training that fosters the sort of “ability to think and act for oneself” that is needed in the real world
Qualification requirements	Individual students or groups of students from high schools (including the latter part of secondary education schools) anywhere in Japan
Eligible content	Plans of the following types that engage the free ideas and creative power of young people: <ul style="list-style-type: none"> • Business plans that make people's lives better or that make the world work better • Business plans that resolve social issues such as regional or environmental problems
Business plan screening criteria	<ol style="list-style-type: none"> (1) Do the products and/or services reflect the wealth of ideas and viewpoints typical of high-school students? (2) Does the plan identify needs and propose specific customers (targets)? (3) Has the plan considered the required management resources (people, things, technology, expertise)? (4) Does the plan allow for sales and/or profitability that will at least ensure continuity?

Fig. Column 2-1-1 (2) looks at the trends in the numbers of high schools that have entered the High School Student Business Plan Grand Prix and shows that the number of entries is trending upwards year on year. The content of the plans is increasingly diverse and the standard is rising each year, with high-school students in regions faced with the problem of a shrinking population presenting entries such as business plans aimed at regional revitalization through collaboration with local industry and businesses by utilizing local resources. Other proposed business plans put forward by students at schools designated as Super Global High Schools under the Ministry of Education, Culture, Sports, Science and Technology (MEXT) SGH program bring an international perspective.

Entrepreneur training programs are also starting up under the joint auspices of regional high schools and local governments, including some regions where the Grand Prix is being seized on as an opportunity to hold regional business plan workshops or for local governments to initiate entrepreneur fostering programs for young people.

Fig. Column 2-1-1 (2) Numbers of high school entrants

	1st Grand Prix (FY2013)	2nd Grand Prix (FY2014)	3rd Grand Prix (FY2015)	4th Grand Prix (FY2016)
No. of high school entrants	151	207	264	324
No. of entries	1,546	1,717	2,333	2,662
No. of participating students (individuals)	3,362	4,927	6,915	7,520
No. of visiting JFC lectures held	82	148	183	241



Awards ceremony at the final screening in the 4th [The Infinite Power of Creativity ∞, High School Student Business Plan Grand Prix]

Case 2-1-1 Itsuki Coffee Co., Ltd.

No-one is perfectly ready when they set up a business. The important thing is just to start. A Miyajima coffee specialist

Itsuki Coffee Co., Ltd. (employees: 4; capital: ¥10 million), located in Hatsukaichi City, Hiroshima Prefecture, operates cafés that use specialty coffee beans on Miyajima Island and elsewhere, in addition to acting as a wholesaler of coffee beans. The company places coffee roasters at the entrances of its cafés to attract the attention of passersby, and the fragrant aroma of coffee wafting outside is one of their points of appeal. Inside the cafés, time passes peacefully, and well-seasoned furniture fosters a unique atmosphere.

Keisuke Sasaki, the company's President, first had the idea of founding a company in 2003 when he was 20, and started a small business with four friends from his university seminar guiding tourists around Miyajima in rickshaws. Mr. Sasaki had been working part-time in a café during his student years, and felt that he would like to use the knowledge and skills that he had gained in this job to open his own café in the future. As a result of his involvement in the rickshaw business, his desire to start a business became even stronger. In addition to this, he had come to know the warmth of the residents of Miyajima through his rickshaw activities, and he wanted to help revitalize the local area through starting a business. After quitting his involvement in the rickshaw business and passing it to his university friends, Mr. Sasaki continued to look towards opening his own business, studying via his part-time café job and his university seminar to gain the essential knowledge and experience to start a business, and accumulating the necessary funds, feeling no particular anxiety or pressure despite the fact that students around him were finding jobs one after another. Mr. Sasaki consulted with the Hiroshima Prefecture Societies of Chambers of Commerce and Industry regarding starting his business, and received support that included assistance in formulating a business plan. In addition, because his own funds were insufficient, he received a loan from the National Life Finance Corporation (current Japan Finance Corporation), and after graduating from university in 2006, he started his business.

Despite the fact that he had received a loan from a financial institution, for three years after founding his company Mr. Sasaki operated the business by himself without hiring employees in order to reduce fixed costs and other expenses to the minimum. Because of this, café operations such as serving customers and business procedures such as procuring financing were extremely difficult for Mr. Sasaki when he started the business. In an attempt to increase sales by even a little, he was also keeping the café open from noon until midnight, but he felt that the drain on his strength reduced the quality of his service, and so he reconsidered his business hours; today employees at his cafés leave work no later than 7:00PM.

In terms of products, Mr. Sasaki sought to distinguish his café from competitors by offering specialty, high-quality coffee beans, the price of which was fixed irrespective of the market rate. However, given that at the beginning his café was a small-scale sole-proprietor business with no track record, it was not possible for him to deal directly with trading companies that demanded high-volume orders. Mr. Sasaki therefore started negotiating with a supplier to whom he was introduced by an acquaintance, and was able to obtain high-quality coffee beans in small lots, allowing him to operate his business without any change to the original concept. Later, in 2010, Mr. Sasaki incorporated, and became able to deal directly with trading companies.

With the simultaneous operation of multiple cafés, it became difficult for Mr. Sasaki to adequately manage all the business's affairs, such as tax, labor management and accounting, and he therefore established an advisory contract with a tax advisor, and as a result has been able to steadily improve his business results while receiving guidance and support.

As a message for people who want to start a business, Mr. Sasaki stresses, "I started my business as soon as I graduated from university, but this was only possible as a result of the support I received from a range of sources, including the people of Miyajima, my university professors, and the Societies of Commerce and Industry. No matter how much you prepare, there are problems that won't be apparent to you, that you won't have any experience of, until you actually run a business. It's important just to start."



Keisuke Sasaki, President of Itsuki Coffee

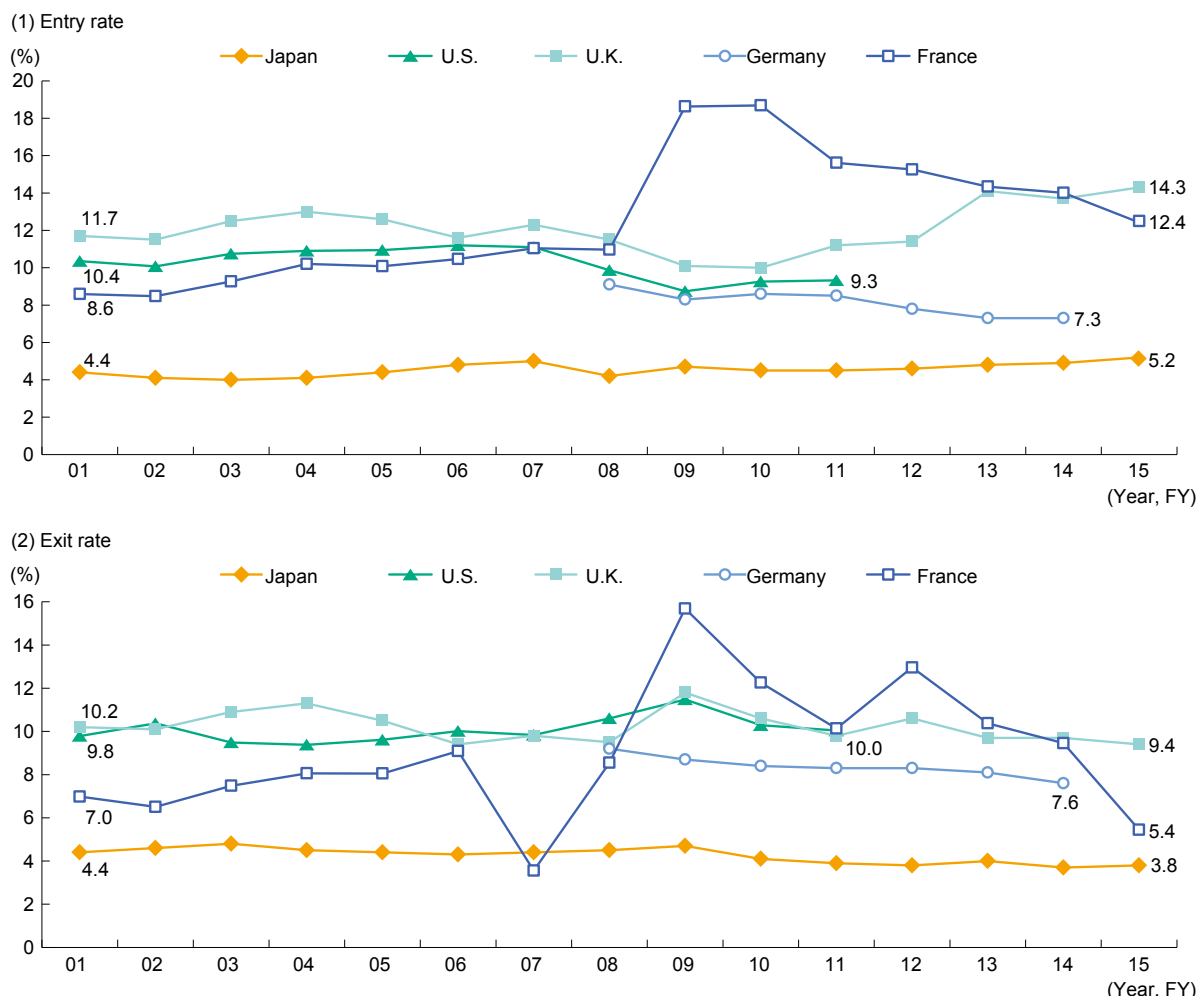
2. International comparison of business startup conditions

In this subsection, we will begin with an international comparison looking at entry rates and exit rates in Japan and those in Western countries. We will then focus more specifically on the process whereby businesses are actually established and compare Japan with other countries in terms of its awareness of and activities towards business startups in order to tease out the conditions for business startups in Japan.

(1) International comparison of entry and exit rates

We begin by using government statistics to check entry and exit rates in Japan and in the U.S. and the European nations of the U.K., Germany and France. Japan's entry and exit rates are calculated in a number of ways, but

the rates used for this international comparison between Japan and Western countries are calculated using the *Annual Report on Employment Insurance Programs* by the Ministry of Health, Labour and Welfare (MHLW), as was the case in Part I. Fig. 2-1-7 shows the trends in the entry rate and exit rate in Japan and in Western countries. The statistics are compiled differently in Japan and the other countries, so a simple straight comparison is not possible. However, the figure clearly shows that Japan's entry and exit rates between 2001 and 2015, at around 5% and around 4% respectively, are consistently very low in comparison with Western countries. By contrast, the recent entry rates in the U.K. and France are around 13%, which is almost 10 percentage points higher than Japan's rate.

Fig. 2-1-7 International comparison of entry and exit rates

Sources: Japan: Ministry of Health, Labour and Welfare, *Annual Report on Employment Insurance Programs* (Fiscal year basis).

U.S.: U.S. Small Business Administration, *The Small Business Economy*.

U.K.: Office for National Statistics, *Business Demography*.

Germany: Statistisches Bundesamt, *Unternehmensgründungen, -schließungen: Deutschland, Jahre, Rechtsform, Wirtschaftszweige*.

France: INSEE, *Taux de création d'entreprises*.

- Notes:
1. Japan's entry and exit rate are calculated based on the establishment and discontinuance of businesses that provide employees with insurance (applicable businesses).
 2. The rate of business entries and exits for the U.S. is calculated based on the emergence and disappearance of employers.
 3. The rate of business entries and exits for the U.K. is calculated based on the number of companies registered as paying value-added tax (VAT) and pay-as-you-earn (PAYE) tax.
 4. Germany's entry and exit rates are calculated based on the number of companies that submit notifications of the establishment and discontinuance of business.
 5. France's entry and exit rates are calculated based on the number of companies registered into or removed from the SIRENRE register of companies and establishments.
 6. Because the characteristics of the statistics differs between countries, it is not possible to make simple comparisons.

(2) International comparison of entrepreneurial awareness

The processes leading up to the establishment of a business are: (1) People indifferent to business startups become interested; (2) specific preparations are made for business startup; and (3) actual business startup. Below, we will focus on the “process of becoming interested in a

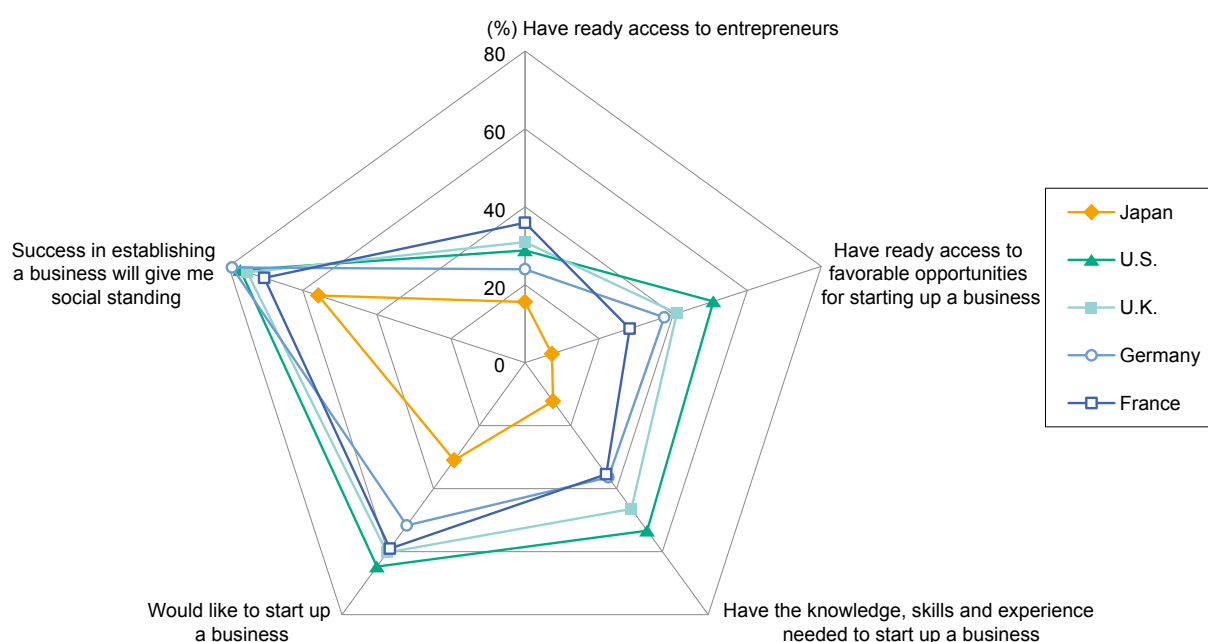
business startup (entrepreneurial awareness)” in (1) above and the “process of preparing for and starting up a business (entrepreneurial activity)” in (2) and (3) above. We will then compare those processes across different countries. To make an international comparison of entrepreneurial awareness and activity, we will look at those factors in Japan and in Western countries as shown by the results

of the Global Entrepreneurship Monitor (GEM)³⁾ surveys undertaken in the major countries around the world.

We begin by conducting an international comparison of entrepreneurial awareness. In the GEM surveys, adults between the ages of 18 and 64 are asked about their levels of entrepreneurial awareness and entrepreneurial activity. Fig. 2-1-8 shows the factors used to query the levels of entrepreneurial awareness. From Fig. 2-1-8, it is clear that

Japan has a far lower proportion of responses to all the queries than Western countries, particularly for “Have ready access to entrepreneurs” and “Have the knowledge, skills and experience needed to start up a business”. This indicates that the level of entrepreneurial awareness in Japan is especially low when compared with Western countries.

Fig. 2-1-8 International comparison of entrepreneurial awareness



Source: Formulated by the SME Agency from the *Report on the FY2015 'Survey of Entrepreneurial Spirit' Survey of Business Startup and Venture Support* (March 2016, Nomura Research Institute, Ltd.).

- Notes:
- Shows the results of the Global Entrepreneurship Monitor (GEM) surveys.
 - Here, the “Have ready access to entrepreneurs” response shows the GEM survey “indicator of entrepreneurial activity penetration” (the proportion who responded “Know someone who started up a new business in the last two years”).
 - Here, the “Have ready access to favorable opportunities for starting up a business” response shows the GEM survey “indicator of business opportunity recognition” (the proportion who responded “A good opportunity to start up a business will come up in the area where I live in the next six months”).
 - Here, the “Have the knowledge, skills and experience needed to start up a business” response shows the GEM survey “indicator of knowledge, skills and experience” (the proportion who responded “Have the knowledge, skills and experience needed to start up a new business”).
 - Here, the “Would like to start up a business” response shows the GEM survey “Assessment of career choice” (the proportion who responded “Most people in your country think that starting up a new business is a desirable career choice”).
 - Here, the “Success in establishing a business will give me social standing” response shows the GEM survey “Assessment of the social standing of entrepreneurs” (the proportion who responded “People who succeed in starting a new business gain respect and social standing in your country”).

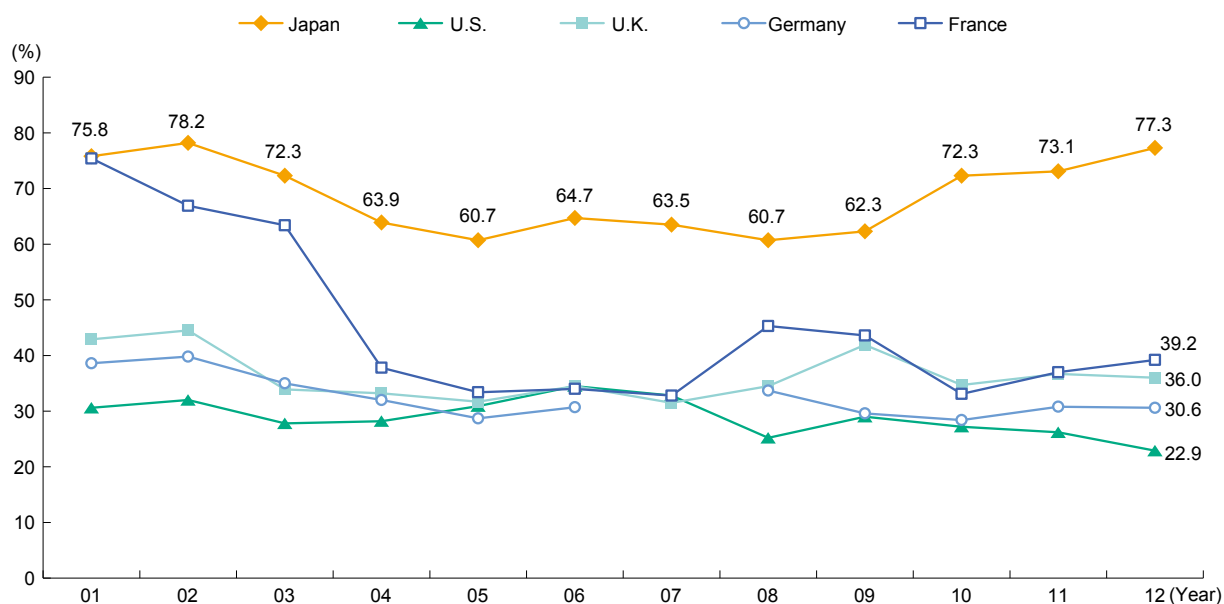
3) The GEM surveys have been conducted since 1999, primarily by Babson College in the U.S. and London University in the U.K. based on the premise that a country's economic development is closely tied to entrepreneurial activity. The three main goals of the surveys are to identify: (1) whether there are differences between countries in their entrepreneurial activity; (2) whether economic activity and entrepreneurial activity are correlated; and (3) what are the factors that underlie the differences in entrepreneurial activity. From 10 countries, including Japan, initially in 1999, the number of participating countries and regions rose to 62 in 2015. The minimum number of samples per country is 2,000 (random sampling) and the same survey forms are used worldwide. Through these surveys, it is possible to draw international comparisons of entrepreneurial activity, entrepreneurial attitudes, the goals of entrepreneurial activity and the situation regarding activities that support business startups.

(3) Proportion of people not interested in business startups

Next, we will look more closely at three of the responses used to measure entrepreneurial awareness in Fig. 2-1-8 above, namely “Have ready access to entrepreneurs”, “Have ready access to favorable opportunities for starting up a business” and “Have the knowledge, skills

and experience needed to start up a business”. People who responded “No” to any of these three responses are defined in this subsection as “people not interested in business startups” and Fig. 2-1-9 shows the proportion of such people among all the respondents. The figure shows that Japan tends to have a higher proportion of people not interested in business startups than Western countries.

Fig. 2-1-9 Proportion of people not interested in business startups



Source: Formulated by the SME Agency from the *Survey of Entrepreneurial Spirit* report (March 2014, Venture Enterprise Center).

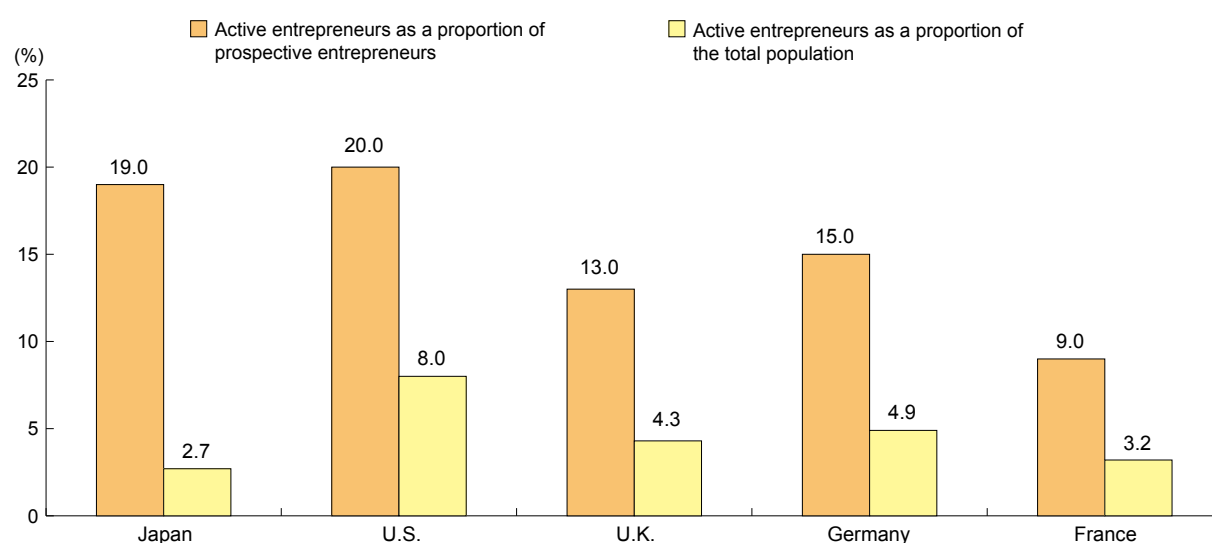
- Notes:
- Shows the results of the Global Entrepreneurship Monitor (GEM) surveys.
 - Here, “proportion of people not interested in business startups” is calculated as the proportion of people who responded in the negative to any one of the following three indicators: “indicator of entrepreneurial activity penetration”, “indicator of business opportunity recognition” and “indicator of knowledge, skills and experience”.

(4) Correlation between entrepreneurial awareness and entrepreneurial activity

Below, we look at the differences between Japan and Western countries with respect to the correlation between entrepreneurial awareness and entrepreneurial activity. Fig. 2-1-10 shows an international comparison of the number of people engaged in entrepreneurial activity (referred to in the remainder of this subsection as “active entrepreneurs”) as a proportion firstly of all the respondents and then of the people interested in business startups (referred to in the remainder of this

subsection as “prospective entrepreneurs”). Here, when we look at active entrepreneurs as a proportion of the total population, the level in Japan, like that for entrepreneurial awareness, is lower than in Western countries. On the other hand, if we look only at prospective entrepreneurs, the proportion of prospective entrepreneurs who go on to be actual active entrepreneurs is higher than in the U.K., Germany and France and on a par with the level in the U.S., as indicated by the number of active entrepreneurs as a proportion of prospective entrepreneurs.

Fig. 2-1-10 International comparison of the proportion of prospective entrepreneurs who engage in entrepreneurial activity



Source: Formulated by the SME Agency from *International Comparative Analysis of the Factors Influencing Entrepreneurial Activity* (March 2012, Research Institute of Economy, Trade and Industry (RIETI)).

- Notes:
- Shows the results of the Global Entrepreneurship Monitor (GEM) surveys.
 - Here, “active entrepreneurs as a proportion of prospective entrepreneurs” refers to active entrepreneurs (people making concrete preparations to start up a business plus the people who started up a business no more than 3.5 years ago) as a proportion of the people who responded “Have the knowledge, skills and experience needed to start up a business”.
 - Here, “active entrepreneurs as a proportion of the total population” refers to active entrepreneurs (people making concrete preparations to start up a business plus the people who started up a business no more than 3.5 years ago) as a proportion of the general adult population (aged 18 to 64).
 - The proportion of active entrepreneurs is a value calculated from individual data from 2001 to 2010.

The results above show that the level of entrepreneurial awareness in Japan is trending downwards in comparison to Western countries, but that when we look solely at prospective entrepreneurs, the proportion who go on to actually make business startup preparations is relatively high. This indicates that, in order to increase business startups in Japan, it is important to begin by sparking an

interest in entrepreneurship among people not interested in business startups. Another measure that is likely to be effective is enhancing the support available in each of the processes that lead to preparations for starting a business and then to actual business startups once people not interested in business startups have started to take an interest in establishing their own businesses.

Column 2-1-2 International comparison of entrepreneurial environments and business startup support policies

This column provides an overview of the entrepreneurial environment and business startup support policies in Western countries and looks at the correlation between those entrepreneurial environments and business startup support policies and entry rates. It will then focus on enterprise survival rates and compare those in Japan with those in Western countries.

Entrepreneurial environment

If we look at the entrepreneurial environments in Japan and Western countries, Japan lags behind most Western countries in terms of ease of business startup, placed 89th in the overall rankings. This is because the number of days taken to start up a business and the entry costs involved are higher in Japan than in Western countries. Moreover, when we compare Japan against countries such as U.S., the U.K. and France in factors such as entry costs, those countries can be seen as having environments that are more conducive to business startups than Japan.

Fig. Column 2-1-2 (1) International comparison of entrepreneurial environments

	Global ranking of ease of business startup	Procedural steps for business startup	Days taken to start up a business	Entry cost (%)
Japan	89	8	11.2	7.5
U.S.	51	6	5.6	1.1
U.K.	16	4	4.5	0.1
Germany	114	9	10.5	1.9
France	27	5	3.5	0.7

Source: World Bank, *Doing Business 2017*.

Note: Here, entry cost refers to amount as a proportion of per-capita income.

Business startup support policies

As shown in Fig. 2-1-7 above, the entry rates for the U.K. and France are 14.3% and 12.4% respectively, both far higher than the rate in Japan. Here, we will look at details and outcomes of the business startup support policies in the U.K. and France and look for any correlation with entry rates.

U.K.

The entry rate in the U.K. has risen steadily since 2010⁴⁾. This is in part a result of the full implementation of comprehensive support policies aimed at SMEs. For example, one of the key policies of the British Business Bank (BBB⁵⁾) has been the provision since 2012 of a “Start Up Loans” program, which offers financing accompanied by up to two years of mentoring support after business startup⁶⁾. Since its initial fiscal year, the program has provided 6,500 financing loans totaling £39.2 million⁷⁾. This is further supplemented by investment funds such as the UK Innovation Investment Fund (UKIIF), a venture capital fund for strategically important industries, and credit guarantee schemes such as the Enterprise Finance Guarantee (EFG) scheme⁸⁾.

The education sector also offers programs aimed at promoting entrepreneurship. In 2014, one-month programs were run in which children aged 5 to 11 were each given £5 and allowed to administer a business. Other schemes include enterprise-based teacher training for a more complete career education a scheme that issues “Enterprise Passports”, which act as a record of a people’s accomplishments and career training. Since around 2010, these initiatives have been continuing to boost young people’s interest in business startups⁹⁾.

In the U.K., social enterprises¹⁰⁾ make up roughly 6% of all SMEs, and their numbers have risen from 240,000 in 2010 to 300,000 in 2016. To improve access to finance for such social enterprises, a tax credit scheme for social investment was introduced in 2014 to provide greater diversity in fund-raising sources¹¹⁾.

- 4) Office of National Statistics “Business demography, UK: 2015” (<https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemography/2015>)
- 5) The British Business Bank was established in 2014 as a government-owned development bank tasked with implementing financial policies aimed at SMEs, including support for business startups. British Business Bank “Corporate Information and Subsidiary Companies” (<https://british-business-bank.co.uk/corporate-information>)
- 6) Start Up Loans “About The Loan” (<https://www.startuploans.co.uk/what-is-a-start-up-loan/>)
- 7) Prime Minister’s office and Department for Business, Innovation & Skills “Report on small firms 2010 to 2015 by Lord Young” (<https://www.gov.uk/government/publication/report-on-small-firms-2010-to-2015-by-lord-young>)
- 8) The future shape of small and medium business startup policy in the U.K., according to the Shoko Research Institute *Young Report* (2016) (<https://www.shokosoken.or.jp/chousa/youshi/28nen/28-3.pdf>)
- 9) Prime Minister’s office and Department for Business, Innovation & Skills “Report on small firms 2010 to 2015 by Lord Young” (<https://www.gov.uk/government/publications/report-on-small-firms-2010-to-2015-by-lord-young>)
- 10) Social enterprises are defined in the U.K. as “businesses that trade primarily for social purposes rather than to maximize profits for their stakeholders or owners, and whose surplus profits are generally reinvested in the business or the community for social purposes”. Department for Business, Innovation & Skills “A Guide to Legal Forms for Social Enterprise” (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31677/11-1400-guide-legal-forms-for-social-enterprise.pdf)
- 11) Prime Minister’s office and Department for Business, Innovation & Skills “Report on small firms 2010 to 2015 by Lord Young” (<https://www.gov.uk/government/publications/report-on-small-firms-2010-to-2015-by-lord-young>)

France

In France, a business can be established just by submitting a simple application, using the “Auto-entrepreneur” system established in January 2009. Coupled with preferential tax treatment for enterprises that have just been established, this scheme saw the number of business startups by sole proprietors double during 2009 and 2010. In fact, around 320,000 sole proprietors started up businesses in 2009, rising to roughly 360,000 in 2010¹²⁾. The increase in the number of business startups dropped off again in 2011, but levels higher than before the introduction of the system were still maintained¹³⁾.

When we break down the people who started up a business using the system, 30% of the sole proprietors were not in work prior to starting up their business (including 6% who were retired and 5% who were students), and 40% were working individually in secondary or subsidiary businesses. One of the main reasons given for using the system was that it permitted a new business to be started up in addition the main business¹⁴⁾.

Enterprise survival rates after startup

We have seen already that both entry rates and exit rates are low in Japan compared with Western countries. So are there differences in the enterprises that are started up in Japan, where both entry rates and exit rates are low, and in Western countries, where both entry rates and exit rates are high. Here, we will compare survival rates after business startup across the various countries (Fig. Column 2-1-2 (2)). As is the case with entry rates and exit rates, the nature of the statistics and data for survival rates differs according to country, so simple comparisons cannot be made. However, the data we have shows that while 57.7% of enterprises in the U.K. and 55.5% of enterprises in France exit the market within five years of being established, no more than 18.3% of enterprises in Japan exit the market within five years of startup. This shows that, while the number of enterprises being started up in Japan may be lower than in Western countries, the proportion of those enterprises that do not exit the market after startup and continue trading for the long term tends to be higher in Japan than in Western countries.

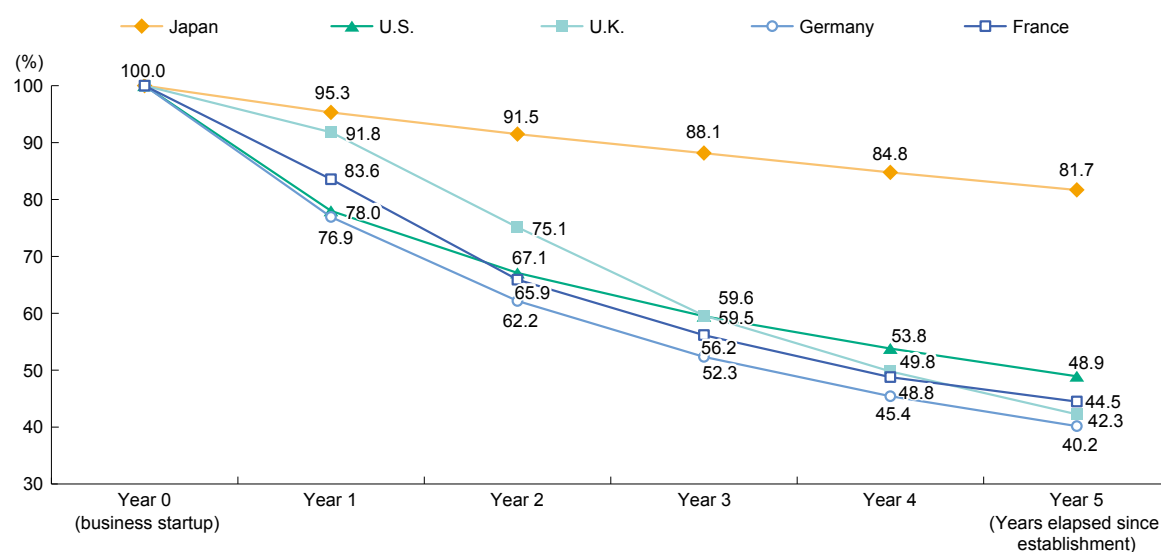
12) <http://www.acoss.fr/home/observatoire-economique/publications/acoss-stat/acoss-stat-n214.html>

13) INSEE “Hors auto-entreprises, les créations d’entreprises augmentent en 2013” (<https://www.insee.fr/fr/statistiques/1280964>)

14) OECD The Missing Entrepreneurs (December 2013) p.202-203

(<http://www.oecd.org/publications/the-missing-entrepreneurs-9789264188167-en.htm>)

Fig. Column 2-1-2 (2) International comparison of enterprise survival rates after startup



Sources: Japan: Recompiled from COSMOS2 (*Enterprise Overview File*) conducted by Teikoku Databank, Ltd.

U.S., Germany, France: Eurostat

U.K.: Office for National Statistics

- Notes:
1. Enterprise survival rates for Japan are compiled only for enterprises for which corporate data is stored in the database. Also, due to the time required to store data in the database, calculated survival rates may be higher than the actual survival rates.
 2. Survival rates in the U.S., the U.K., Germany and France are averaged values for enterprises established between 2007 and 2013.

Section 2 Conditions and issues faced in the establishment phase

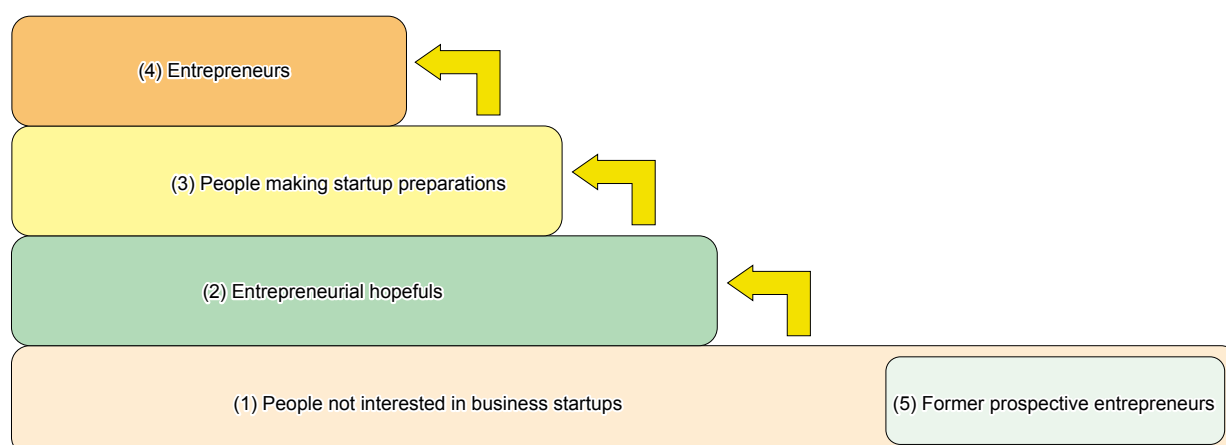
In the previous section, we conducted an international comparison of entrepreneurial awareness and entrepreneurial activity based on GEM surveys and observed that the proportion of people with no interest in business startups was higher in Japan than in Western countries, which results in a lack of entrepreneurial activity. In this section, we will use the *Survey of Awareness and Experience of Business Establishment and Startup*¹⁵⁾ to conduct a more detailed analysis. Specifically, we divide the processes in the business establishment phase into four stages, as shown in Fig. 2-1-11, and then summarize the conditions in each stage and the issues that arise. Our specific aims are to identify the respective conditions for four types of people: (1) people currently not interested in business startups (referred to in this section as “people not interested in business startups”); (2) people interested in and thinking about business startups who have not yet made any startup preparations (referred to in this section

as “entrepreneurial hopefuls”); (3) people who would like to start up a business and are currently making concrete preparations for business startup (referred to in this section as “people making startup preparations”); and (4) people who have actually started up a business (referred to in this section as “entrepreneurs”). We will also be analyzing the issues each group of people faces and the type of support policies or other measures they need in order to progress to the next stage. Among the people not interested in business startups, there is also a certain number of people in another category: (5) people who have previously been interested in starting up a business and aspired to do so, but who gave up on the idea and now are no longer interested in starting up a business (referred to in this section as “former prospective entrepreneurs”). We will analyze the conditions and issues facing these former prospective entrepreneurs also.

15) A survey conducted in December 2016 by Mitsubishi UFJ Research and Consulting Co., Ltd. on behalf of the SME Agency.

The Internet-based screening survey questioned men and women aged 18 to 69 throughout Japan. The survey method used a two-step approach with a screening survey followed by the main survey. The screening survey identified entrepreneurial hopefuls, people making startup preparations, entrepreneurs and former prospective entrepreneurs to be the targets for the main survey, ultimately obtaining responses from 4,125 main survey respondents.

The screening survey was also used to study overall trends, with samples collected from 18,000 of the screening survey respondents selected to give a balance in terms of gender and age group (35 or younger, 36 to 55 and 56 or older).

Fig. 2-1-11 Stages leading up to business establishment

- (1) People not interested in business startups: people not currently interested in starting up a business
- (2) Entrepreneurial hopefuls: people who are interested in and thinking about starting up a business but are not currently making concrete preparations
- (3) People making startup preparations: people who would like to start up a business and are currently making concrete preparations to start up a business
- (4) Entrepreneurs: people who have actually started up a business
- (5) Former prospective entrepreneurs: people previously interested in starting up a business who are now no longer interested in doing so
 (* People who once thought about starting up a business or who prepared to or hoped to start up a business without completing the preparations, and who now have no interest in starting up a business)

1. Current situation for business startups in Japan

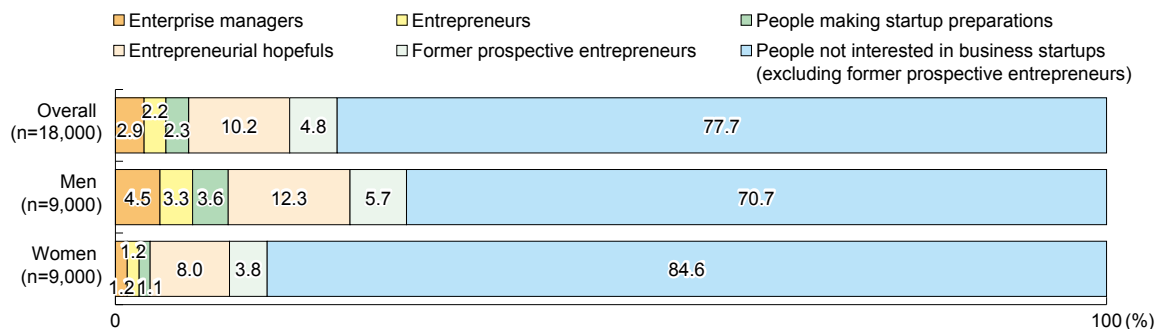
(1) Proportion of people not interested in business startups

We begin by looking at the proportion of people not interested in business startups in the survey (Fig. 2-1-12). If we also include former prospective entrepreneurs, around 80% of all the respondents were not interested in starting up a business. If we compare the genders, a slightly higher proportion of women are not interested in starting up a business. If we then look at the proportions by gender and age, we see higher proportions among enterprise managers 10 or more years after business startup and entrepreneurs within 10 years of business startup with proportions increasing in both genders in the older age brackets of 50s and 60 and older.

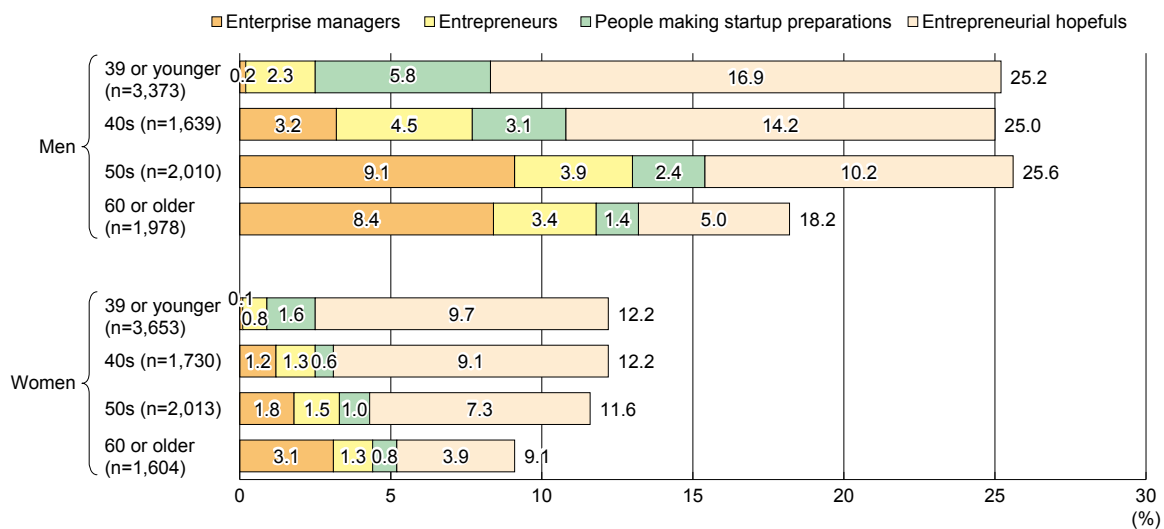
While the proportions of people who aspire to start up a business, such as entrepreneurial hopefuls and people making startup preparations, are higher among the younger age groups than among seniors, the proportions of enterprise managers and entrepreneurs increase as the age group rises. This suggests that people who aspire to start up a business go on to actually start up a business. On the other hand, the fact that there is a fairly constant number of entrepreneurial hopefuls and people making startup preparations in the 50 and older age group suggests that a set number of the people who aspire to start up a business do not quickly go on to establish a business due to problems or other reasons.

Fig. 2-1-12 Proportions of people with and without an interest in starting up a business

(1) Proportions by gender



(2) Distribution by gender and age group of enterprise managers, entrepreneurs, people making startup preparations and entrepreneurial hopefuls



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. In this survey, “entrepreneurs” are people who have started up a business in the last 10 years, and “enterprise managers” are people who have started up a business that has been running for at least 10 years.
 2. In (2), responses from former prospective entrepreneurs and people not interested in business startups (excluding former prospective entrepreneurs) are not shown.

2. Conditions for people not interested in business startups, excluding former prospective entrepreneurs

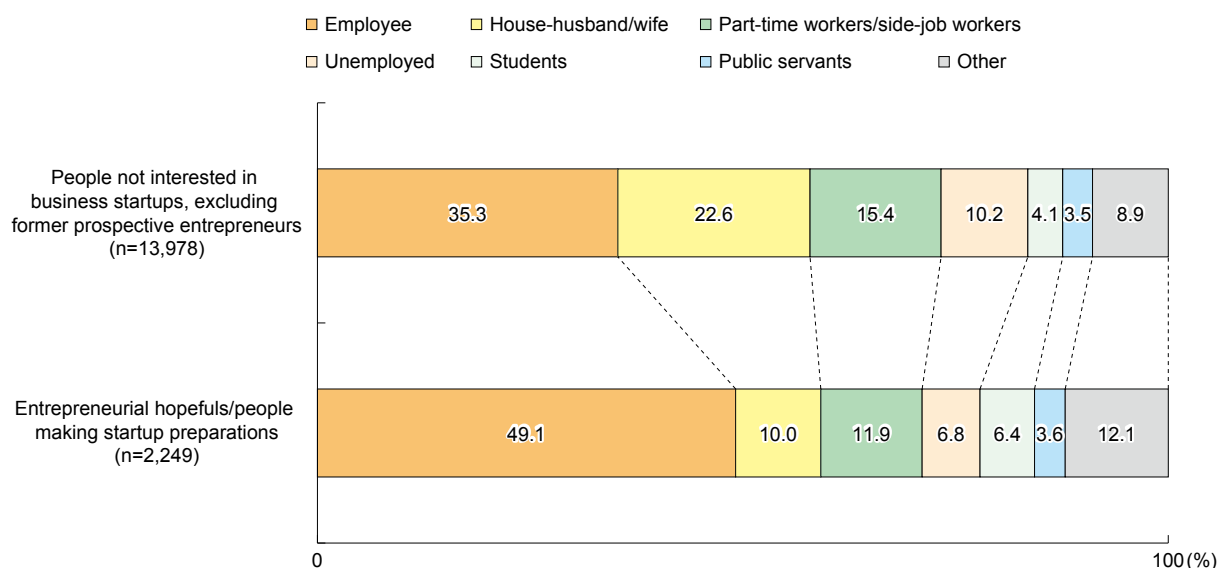
Next, we look at the people not interested in business startups other than former prospective entrepreneurs and compare them with entrepreneurial hopefuls and people making startup preparations to gain a clearer picture of the situation for those people not interested in business startups who are not former prospective entrepreneurs.

(1) Current occupations of people not interested in business startups, excluding former prospective entrepreneurs

Fig. 2-1-13 shows a breakdown of the current

occupations of people not interested in business startups who are not former prospective entrepreneurs and compares them with the occupations of entrepreneurial hopefuls and people making startup preparations. The figure shows that higher proportions of people other than former prospective entrepreneurs who are not interested in business startups are either a “House-husband/wife”, “Part-time workers/side-job workers” or “Unemployed” when compared with entrepreneurial hopefuls and people making startup preparations.

Fig. 2-1-13 Current occupations of people not interested in business startups, excluding former prospective entrepreneurs



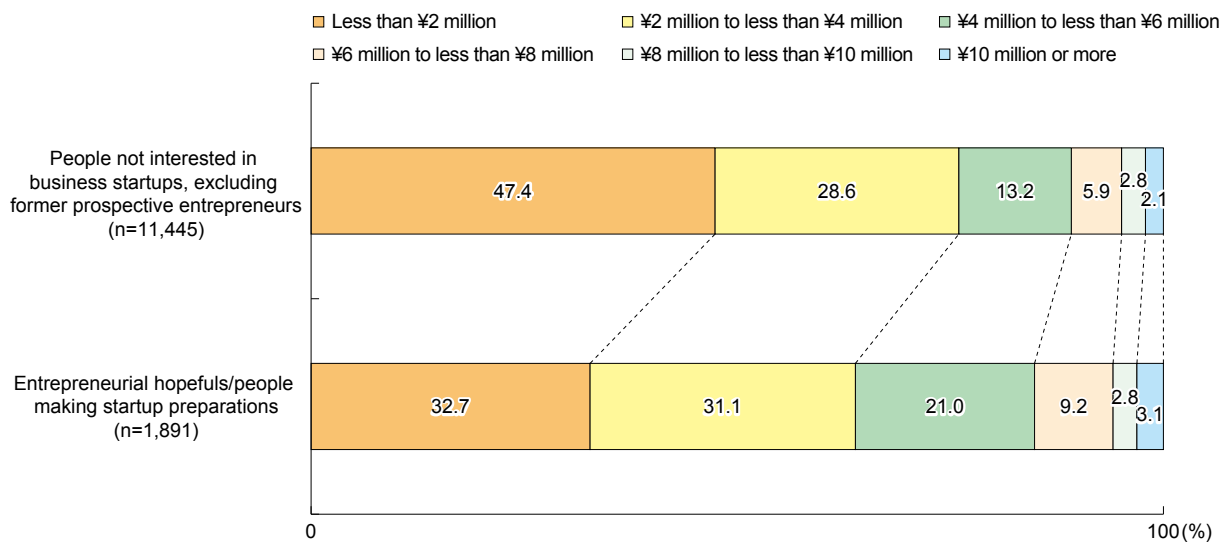
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

(2) Distribution by personal yearly income of people not interested in business startups, excluding former prospective entrepreneurs

Next, Fig. 2-1-14 shows the distribution of the personal yearly incomes of people not interested in business startups, excluding former prospective entrepreneurs. As we saw in Fig. 2-1-13 above, compared with entrepreneurial hopefuls and people making startup preparations, people

not interested in business startups who are not former prospective entrepreneurs include high proportions who fall into the house-husband/wife, part-time worker or side-job worker and unemployed categories. As a result, around half of all people not interested in business startups who are not former prospective entrepreneurs have yearly income of less than ¥2 million.

Fig. 2-1-14 Distribution by personal yearly income of people not interested in business startups, excluding former prospective entrepreneurs



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

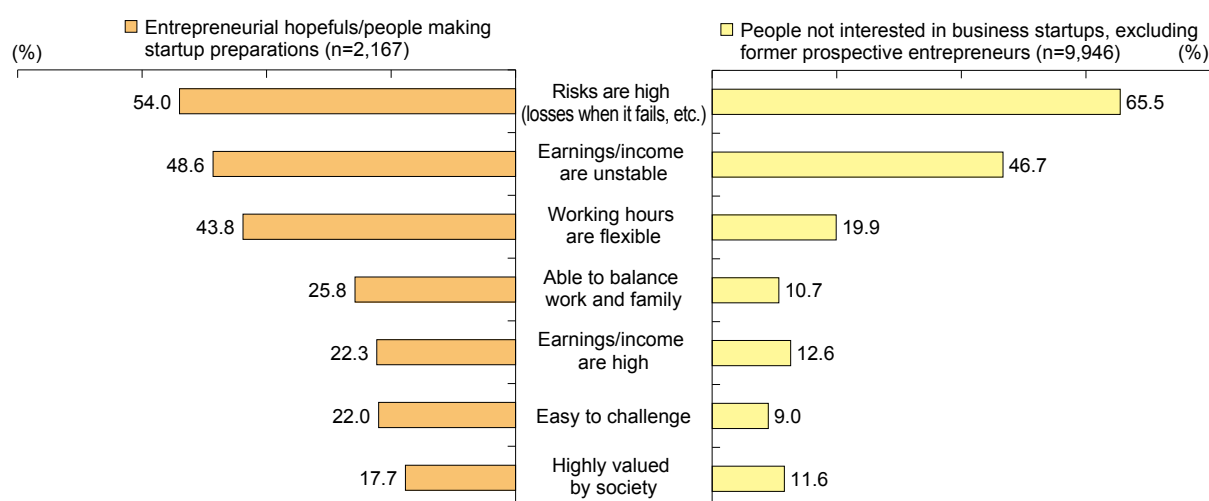
Note: Totals for the proportions exclude people who responded "Don't know".

(3) Impressions of business startups

Fig. 2-1-15 compares the respective impressions of starting up a business held by people not interested in business startups, excluding former prospective entrepreneurs, with those of entrepreneurial hopefuls and people making startup preparations. The figure shows that people not interested in business startups, excluding former prospective entrepreneurs, associate business startups with the two negative impressions of “Risks are high (losses when it fails, etc.)” and “Earnings/income are unstable”. However, while entrepreneurial hopefuls and people making startup preparations agree with people not interested in business startups, excluding

former prospective entrepreneurs, regarding “Risks are high (losses when it fails, etc.)” and “Earnings/income are unstable”, they also hold many positive impressions, including “Working hours are flexible”, “Able to balance work and family”, “Earnings/income are high” and “Easy to challenge”. Because a high proportion of people not interested in business startups, who have never had any interest in starting up a business, have such a negative impression of business startups, it seems likely that presenting such people with the positive aspects of business startups could result in people not interested in business startups developing a future interest in doing precisely that.

Fig. 2-1-15 Impressions of business startups held by people not interested in business startups, excluding former prospective entrepreneurs



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.

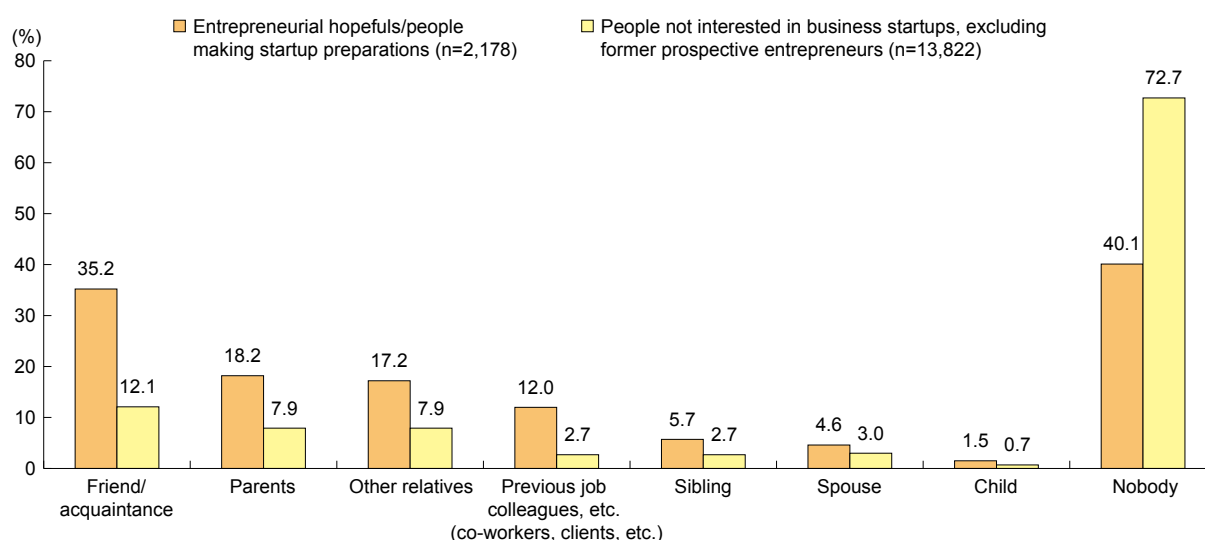
2. The chart lists the seven items with the highest proportion of responses from entrepreneurial hopefuls and people making startup preparations.

(4) Immediate environment of people not interested in business startups, excluding former prospective entrepreneurs

Next, Fig. 2-1-16 shows the responses when people not interested in business startups, excluding former prospective entrepreneurs, and entrepreneurial hopefuls and people making startup preparations were asked whether they had ready access to enterprise managers. The figure shows that a higher proportion of entrepreneurial hopefuls and people making startup preparations had enterprise managers in their immediate environment,

particularly “Friend/acquaintance” and “Parents”, than was the case for people not interested in business startups, excluding former prospective entrepreneurs. Conversely, around 70% of people not interested in business startups responded “Nobody”, suggesting that one of the reasons why such people are not interested in business startups is that there are no entrepreneurs or enterprise managers in their immediate circles, and so they have no way to form any concrete impressions regarding starting up and managing a business.

Fig. 2-1-16 Immediate environment of people not interested in business startups, excluding former prospective entrepreneurs



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

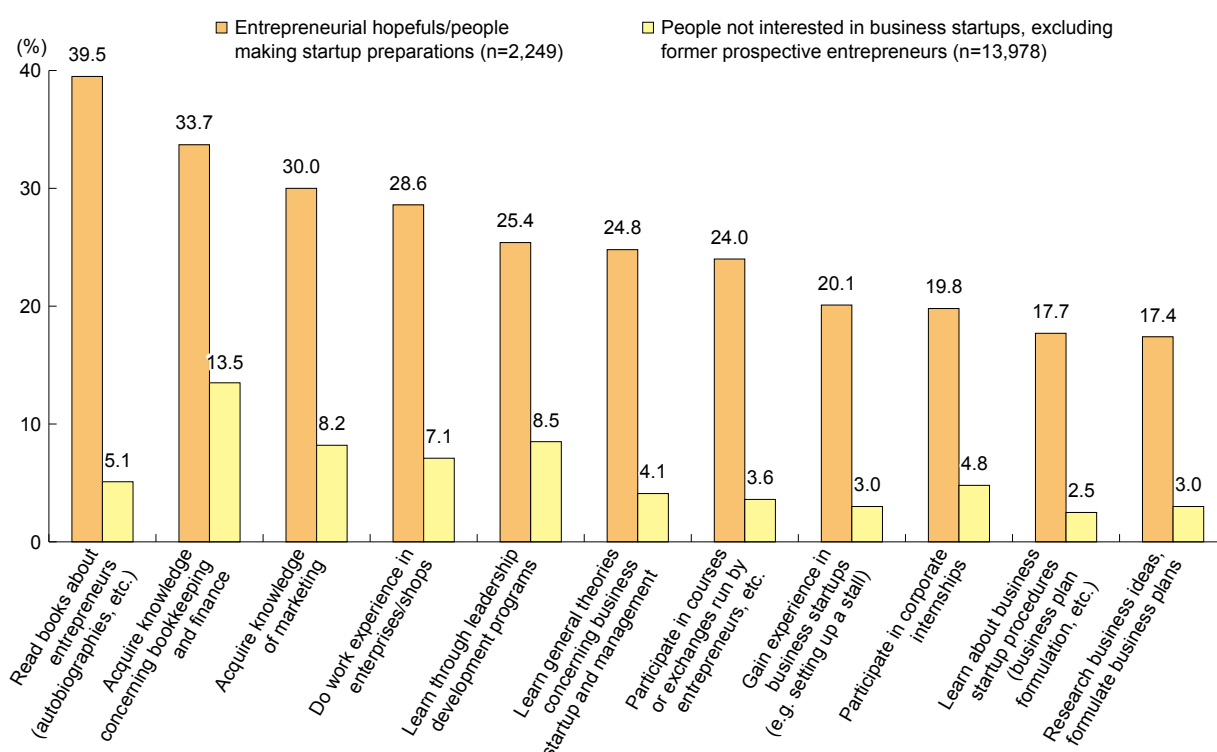
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “Other relatives” refers to family members other than parents, spouses, siblings and children.
 3. No “Other” category is presented here.

(5) Interest in entrepreneur education and business startups

To check whether training that relates to business startups has any impact on whether or not people are interested in starting up a business, Fig. 2-1-17 shows the details of educational initiatives such as training and other programs (referred to hereinafter as “entrepreneur education”) relating to management, business startups and employment that have been accessed by people not interested in business startups, other than former prospective entrepreneurs, and entrepreneurial hopefuls

or people making startup preparations. The figure shows that the proportion of people not interested in business startups, other than former prospective entrepreneurs, who have undergone entrepreneur education is far lower than for entrepreneurial hopefuls or people making startup preparations. From the fact that entrepreneurial hopefuls and people making startup preparations have taken various kinds of entrepreneur education, we can also surmise that receiving entrepreneur education is one of the factors that stimulates interest in starting up a business.

Fig. 2-1-17 Interest in entrepreneur education and business startups



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

The above comparison of people not interested in business startups, excluding former prospective entrepreneurs, and entrepreneurial hopefuls and people making startup preparations has shed some light on the situation of people not interested in business startups, excluding former prospective entrepreneurs. As we observed in Section 1, in comparison with other countries, a high proportion of people in Japan who have once taken an interest in starting up a business go on to make actual business startup preparations. This indicates that increasing the number of people who are interested in starting up a business is a likely catalyst for boosting actual business startups in Japan. And as we saw in Fig. 2-1-16, the immediate environment also has a

significant effect on interest in business startups. Having more entrepreneurs and enterprise managers nearby reinforces positive impressions of business startups and could stimulate greater interest in starting up businesses in people not interested in business startups, excluding former prospective entrepreneurs. For this reason, it is important firstly to provide assistance and an environment in which entrepreneurial hopefuls and people making startup preparations can quickly and easily establish businesses.

With this in mind, below we narrow the focus of our analysis to those entrepreneurial hopefuls and people making startup preparations.

3. Conditions and issues for entrepreneurial hopefuls and people making startup preparations

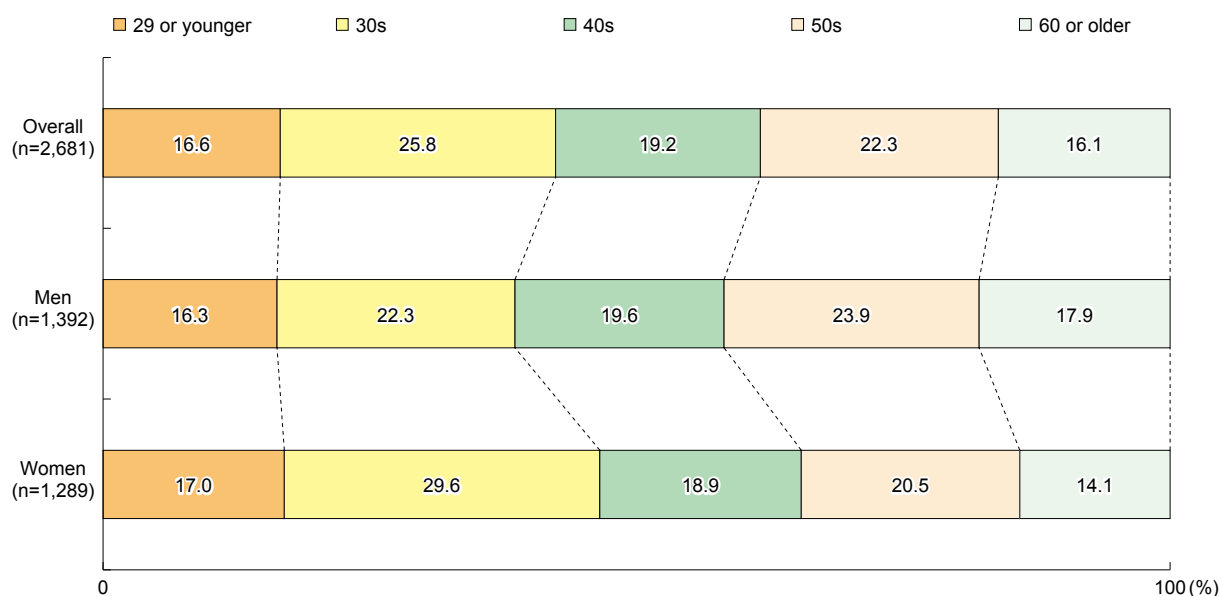
(1) Age breakdown by gender of entrepreneurial hopefuls and people making startup preparations

Here, we will identify the conditions and issues that face entrepreneurial hopefuls and people making startup preparations, along with the support policies used to move those would-be entrepreneurs along to the next stage in starting up businesses.

Firstly, Fig. 2-1-18 shows the age breakdown by gender for entrepreneurial hopefuls and people making startup preparations. The figure shows that roughly 70% of all entrepreneurial hopefuls and people making startup preparations are in the 30–59 age group. If we

look at the results by gender, a higher proportion of male entrepreneurial hopefuls and men making startup preparations are aged 40 and above, while a much higher proportion of female entrepreneurial hopefuls and women making startup preparations are aged 39 or less, almost half in fact. This shows that entrepreneurial hopefuls and people making startup preparations are widely distributed across the age groups, and it seems likely that the issues they face differ markedly depending on their gender and age. For this reason, here we will divide entrepreneurial hopefuls and people making startup preparations by the two axes of gender and age (34 or younger, 35–59 and 60 or older) and summarize the differences between the two.

Fig. 2-1-18 Age breakdown by gender of entrepreneurial hopefuls and people making startup preparations



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

(2) Triggers for interest in business startups among entrepreneurial hopefuls and people making startup preparations

Next, we will look at the factors that triggered an interest in business startups among entrepreneurial hopefuls and people making startup preparations, and identify any differences in the trends by gender and age group (Fig. 2-1-19).

If we begin by looking at men, those who answered “Influence of nearby entrepreneurs/managers” made up the highest proportion in the 34 or younger and 35–59 age groups, with the next highest proportion choosing the “Concerned about future prospects or worsening treatment at work” response in the 34 or younger age group and the “Couldn’t do what I wanted to at work” response in the 35–59 age group. Relatively high proportions of the 34 or younger age group also selected the “Advised to by people around me (family, friends, clients, etc.)” response, while the same was true for the “Had a commercially viable idea” response in the 35–59 age group. This suggests that men aged 34 or younger are interested in starting up a business due to a combination of dissatisfaction with or concern about their current workplace, the influence of nearby entrepreneurs or managers and advice to start up a business from those around them. However, men aged 35–59 seem to have a clearer image than the 34 or younger age group of the work they themselves would like to do, and an interest in starting up a business to make that image a reality. The highest proportions in the 60 or older age group chose “Have some free time”, followed by “Have to get a job (income)”. The “Influence of nearby entrepreneurs/managers” response, which attracted the

highest proportion of respondents in the 34 or younger and 35–59 age groups, was selected by a relatively low proportion of those in the 60 or older age group. This indicates that men aged 60 or older are not influenced by any entrepreneurs or managers around them and are choosing to start up businesses as a way of working and earning income after they reach retirement age.

If we now look at women, the highest proportion women in the 34 or younger and 35–59 age groups, like the men, selected “Influence of nearby entrepreneurs/managers”. Across women in all age groups, a higher proportion chose “Changing home situation (marriage/birth/nursing care, etc.)” than was true for men. This shows that, like men, women in the 34 or younger and 35–59 age groups are influenced by entrepreneurs and managers around them. But otherwise, more women than men tend to take an interest in starting a business due to changes in their home and family situation, namely marriage or divorce, childbirth and childcare, and sickness and nursing care. The highest proportion of women in the 60 or older age group, like the men, chose “Have some free time”, though the next highest proportion, like women in the other age groups, chose “Changing home situation (marriage/birth/nursing care, etc.)”. Whereas a high proportion of men aged 60 or older selected “Have to get a job (income)”, only a low proportion of women made that choice. From this we can infer that women aged 60 or older take an interest in starting up a business not to gain an income but because they have more free time due to changes in their home or family situation, such as reaching a particular juncture in their childcare or nursing care.

Fig. 2-1-19 Triggers for interest in business startups among entrepreneurial hopefuls and people making startup preparations according to gender and age group

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=425)	Influence of nearby entrepreneurs/managers (36.7%)	Concerned about future prospects or worsening treatment at work (19.8%)	Have to get a job (income) (19.3%)	Couldn't do what I wanted to at work (18.4%)	Advised to by people around me (family, friends, clients, etc.) (17.9%)
	35-59 (n=718)	Influence of nearby entrepreneurs/managers (34.7%)	Couldn't do what I wanted to at work (25.1%)	Concerned about future prospects or worsening treatment at work (24.9%)	Have to get a job (income) (18.4%)	Had a commercially viable idea (14.9%)
	60 or older (n=249)	Have some free time (30.1%)	Have to get a job (income) (20.5%)	Influence of nearby entrepreneurs/managers (18.9%)	Concerned about future prospects or worsening treatment at work (18.5%)	Had a commercially viable idea (17.3%)
Women	34 or younger (n=425)	Influence of nearby entrepreneurs/managers (38.4%)	Changing home situation (marriage/birth/nursing care, etc.) (23.5%)	Couldn't do what I wanted to at work (19.8%)	Have to get a job (income) (18.8%)	Advised to by people around me (family, friends, clients, etc.) (17.6%)
	35-59 (n=682)	Influence of nearby entrepreneurs/managers (25.8%)	Changing home situation (marriage/birth/nursing care, etc.) (25.7%)	Have to get a job (income) (22.3%)	Concerned about future prospects or worsening treatment at work (19.5%)	Have some free time (15.1%)
	60 or older (n=182)	Have some free time (26.4%)	Changing home situation (marriage/birth/nursing care, etc.) (20.3%)	Influence of nearby entrepreneurs/managers (20.3%)	Have to get a job (income) (17.0%)	Advised to by people around me (family, friends, clients, etc.) (15.9%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. The table shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
2. The table shows the five items with the highest proportion of responses for each category.
3. Total does not always equal 100% as multiple responses were possible.

From this, we can see that many entrepreneurial hopefuls and people making startup preparations have entrepreneurs and/or managers nearby, and the influence of those established entrepreneurs triggers their interest in starting up a business.

The above findings suggest that if we can facilitate business startups by the entrepreneurial hopefuls

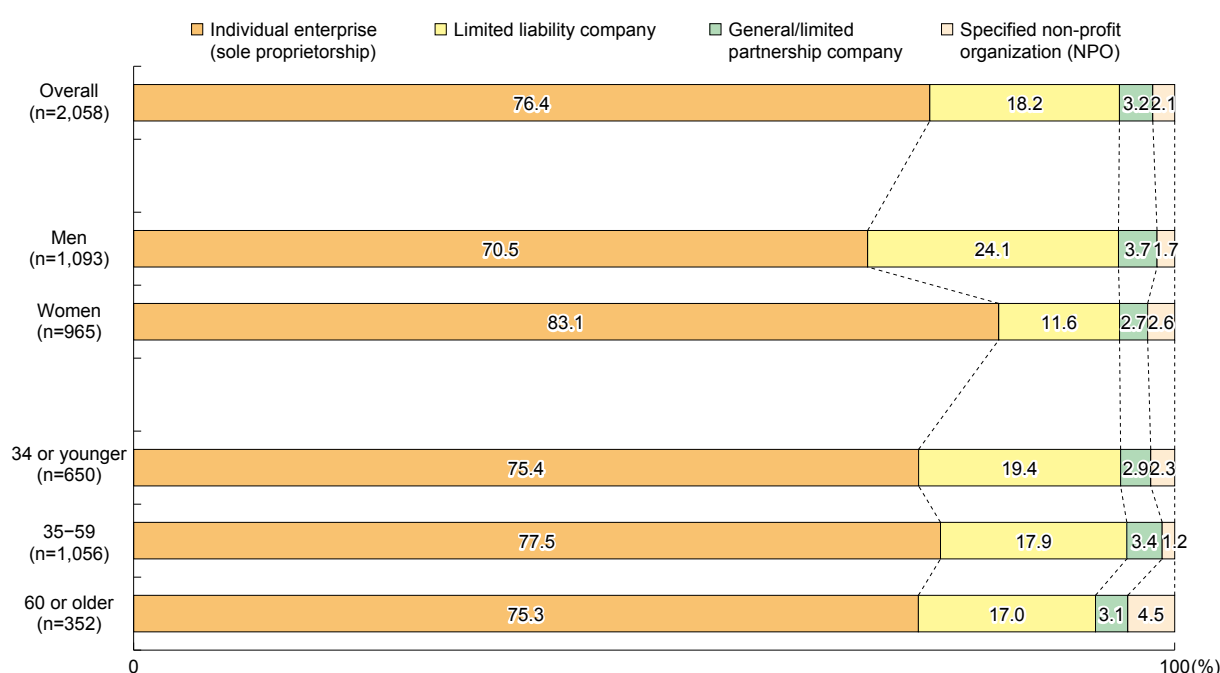
and people making startup preparations who are already interested in starting a business, the number of entrepreneurs around many of the people not interested in business startups will grow. This will generate a virtuous cycle in which the people not currently interested in business startups will become interested, which will in turn help to revitalize business startups in Japan.

(3) Business startups targeted by entrepreneurial hopefuls and people making startup preparations

Below, we will look at the conditions for entrepreneurial hopefuls and people making startup preparations, as well as the issues they encounter in starting up a business. Fig. 2-1-20 shows the types of enterprise being considered when businesses are started up according to gender and age group. If we begin by looking at the results according to gender, 24.1% of men responded “Limited liability company”, which was a higher proportion than

for women. Conversely, 83.1% of women responded “Individual enterprise (sole proprietorship)”, which was a high proportion when compared with men. These figures show that men and women consider starting up different types of company. If we then look at the characteristics of the different age groups, a higher proportion of the 34 or younger bracket chose “Limited liability company” compared with the other age groups, while the proportion of the 60 or older age group who selected “Specified non-profit organization” was slightly higher than the other age groups.

Fig. 2-1-20 Types of enterprise considered when starting up a business by gender and age group



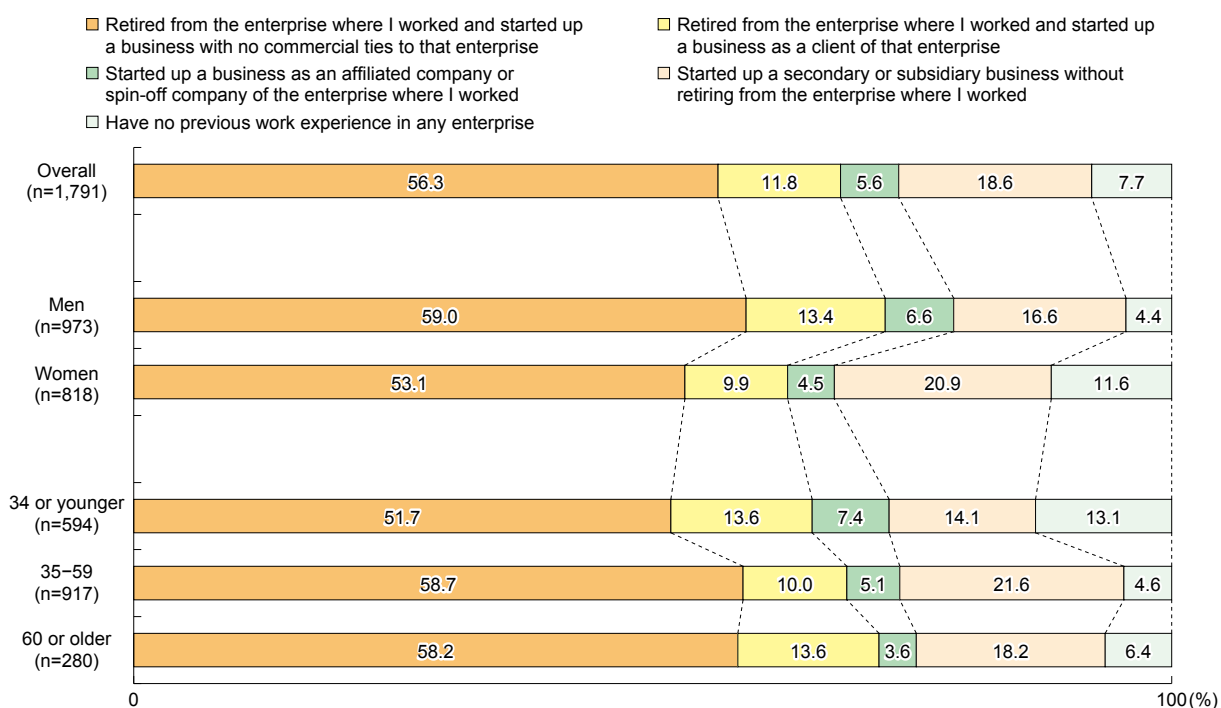
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
2. Totals for the proportions exclude people who responded “Haven’t decided” or “Other”.

Next, Fig. 2-1-21 shows the business startup scenarios being considered when businesses were started up, according to gender and age group. The figure shows that roughly 60% of all entrepreneurial hopefuls and people making startup preparations responded, “Retired from the enterprise where I worked and started up a business with no commercial ties to that enterprise”. But only 20% of the total responded, “Started up a secondary or subsidiary business without retiring from the enterprise where I worked”. Looking at the results by gender, higher proportions of women than men opted for the “Started up a secondary or subsidiary business without retiring from the enterprise where I worked” or “Have no previous work experience in any enterprise” response. If we then

look at the results by age group, the proportion who opted for “Have no previous work experience in any enterprise” was higher in the 34 or younger age group than in other age groups, but a lower proportion of that age group responded “Started up a secondary or subsidiary business without retiring from the enterprise where I worked” than was the case for the other age groups. On the other hand, the proportions in the 35–59 and 60 or older age groups who chose “Retired from the enterprise where I worked and started up a business with no commercial ties to that enterprise” were higher than for the 34 or younger cohort. This shows that the business startup scenarios differ according to gender and age group.

Fig. 2-1-21 Business startup scenarios considered when starting up a business by gender and age group



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

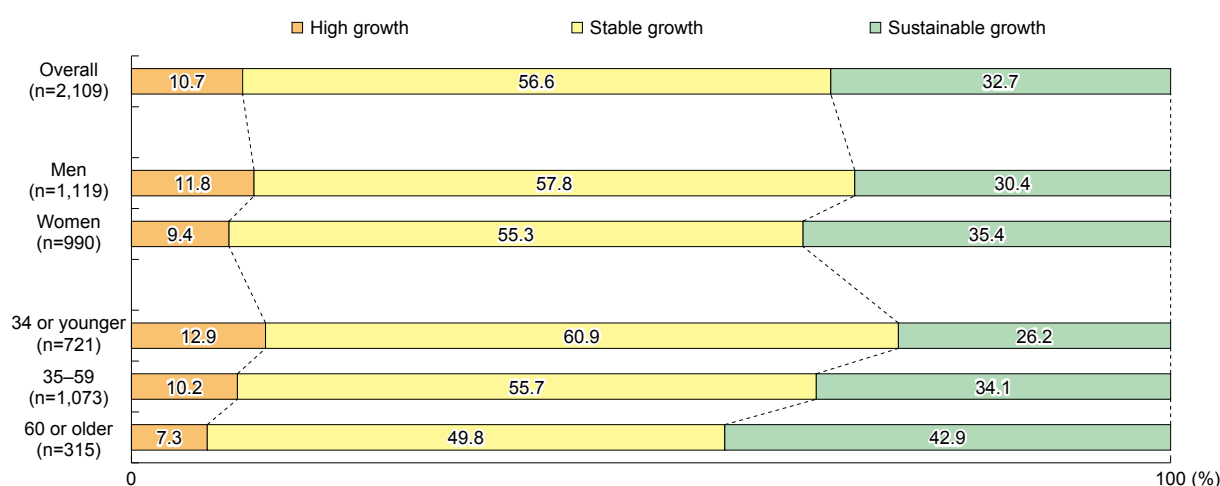
Notes: 1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
2. Totals for the proportions exclude people who responded “Haven’t decided” or “Other”.

(4) Target growth types after business startup for entrepreneurial hopefuls and people making startup preparations

Next, Fig. 2-1-22 shows the results when entrepreneurial hopefuls and people making startup preparations were asked which growth type they wanted to achieve after starting up a business. The questions regarding the desired growth type after starting up a business were to check the type of staffing or sales growth respondents had in mind after they had started up a business. Specifically, growth was classified into three types: high growth, stable growth and sustainable growth. High growth is defined as “a type that aims for a fast pace of employment and sales expansion with the option of listing the business on the stock exchange or of transferring or selling the business for a high value in the future”, stable growth

is defined as “a type that aims to achieve consistent growth in employment and sales over the medium- and long-term”, and sustainable growth is defined as “a type that essentially aims for business continuity and has no particular intention to significantly change employment or sales levels from when the business was founded.” Here, Fig. 2-1-22 shows that around 60% of respondents were aiming for stable growth, with only around 10% wanting high growth. If we look at the results by gender, higher proportions of men were aiming to achieve high growth or stable growth. Looked at by age group, the results show that the younger the age group, the higher the proportions who selected high growth and stable growth, while the more senior age group of 60 and older tended to have a high proportion who opted for sustainable growth.

Fig. 2-1-22 Target growth type after business startup by gender and age group



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. Here, “High growth” is defined as people who responded “aiming for a fast pace of employment and sales expansion with the option of listing the business on the stock exchange or of transferring or selling the business for a high value in the future”.
 3. Here, “Stable growth” is defined as people who responded “aiming to achieve consistent growth in employment and sales over the medium- and long-term”.
 4. Here, “Sustainable growth” is defined as people who responded “essentially aiming for business continuity with no particular intention to significantly change employment or sales levels from when the business was founded”.
 5. Totals for the proportions exclude people who responded “No particular impression”.
(People who responded “No particular impression” comprised 572 (21.3%) out of the total population surveyed (n=2,681), 273 (19.6%) of the men (n=1,392), 299 (23.2%) of the women (n=1,289), 129 (15.2%) of the 34 or younger age group (n=850), 327 (23.4%) of the 35–59 age group (n=1,400), and 116 (26.9%) of the 60 or older age group (n=431)).

Above, we looked at the growth types envisioned by entrepreneurial hopefuls and people making startup preparations after their businesses have started up. Below, we identify the attributes of entrepreneurial hopefuls and

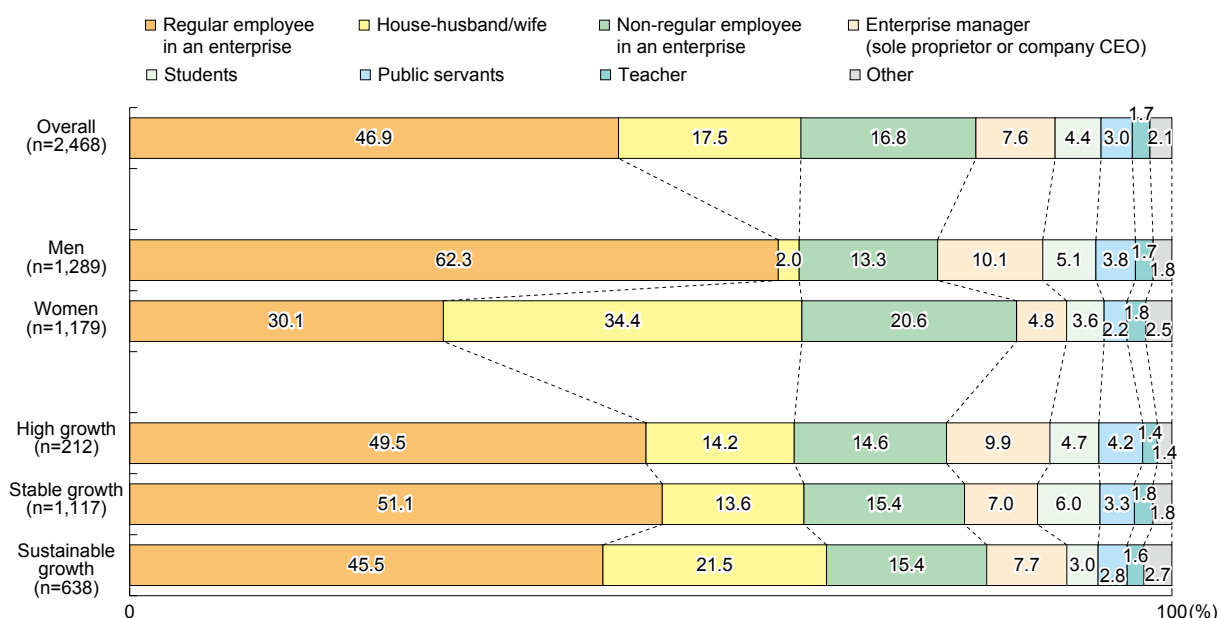
people making startup preparations based on the growth type (high growth, stable growth or sustainable growth) they were targeting after business startup.

(5) Current occupations of entrepreneurial hopefuls and people making startup preparations

Below, Fig. 2-1-23 shows the current occupations of entrepreneurial hopefuls and people making startup preparations according to gender and the growth type they wanted to achieve after starting up a business. If we begin by looking at the entire group, around half of all entrepreneurial hopefuls and people making startup preparations responded “Regular employee in an enterprise”. The fact that around 8% responded “Enterprise manager (sole proprietor or company CEO)” also shows that a certain number of entrepreneurial hopefuls and people making startup preparations already run a business or are attempting to start up another

business. If we now look at the results by gender, a higher proportion of men than women responded “Regular employee in an enterprise” or “Enterprise manager (sole proprietor or company CEO)”, whereas more women than men responded “House-husband/wife” or “Non-regular employee in an enterprise”. Looking next at the responses according to the growth type respondents wanted to achieve after starting up a business, around half across all the growth types responded “Regular employee in an enterprise”. However, the proportion of “Enterprise manager (sole proprietor or company CEO)” responses was higher in the high growth category than in other growth types. The same was true for “Students” in the stable growth type and for “House-husband/wife” in the sustainable growth type.

Fig. 2-1-23 Current occupation by gender and target growth type after business startup



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. Totals for people who left work to prepare for starting up a business and are currently unemployed show their previous status.
 3. Totals for the proportions exclude people who responded “Have never been employed”.

(6) Overseas education among entrepreneurial hopefuls and people making startup preparations

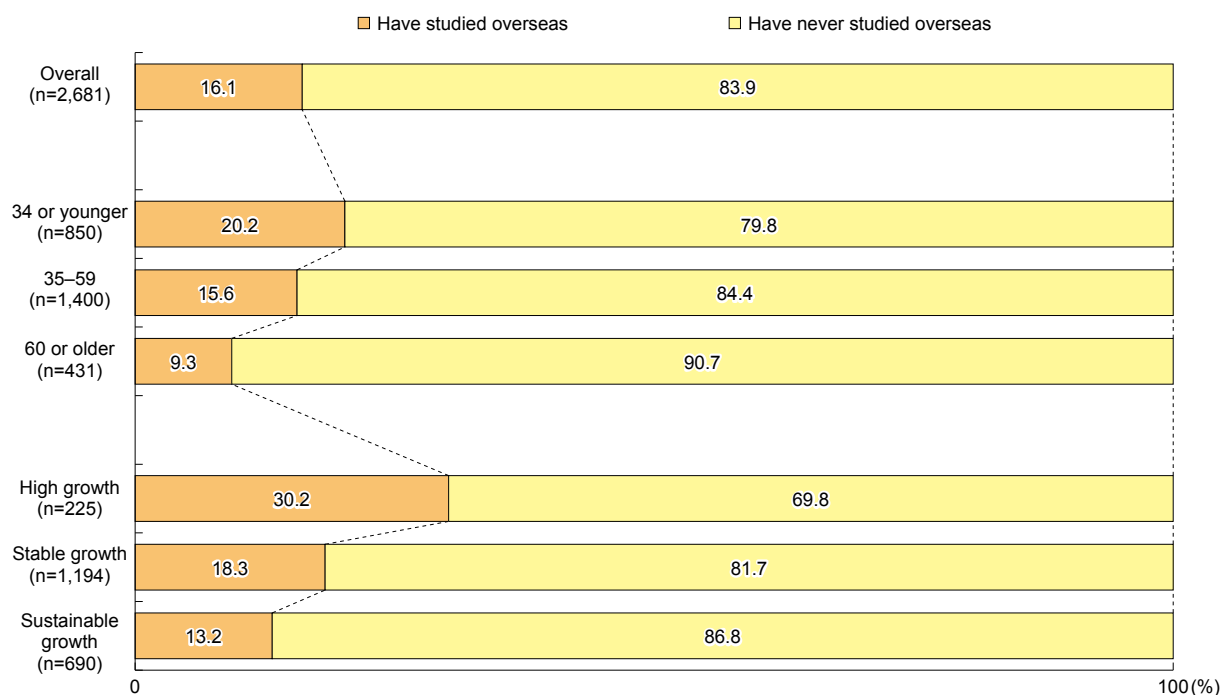
Fig. 2-1-24 looks at the levels of overseas education among entrepreneurial hopefuls and people making startup preparations. The figure shows that the younger

the age group, the higher the proportion of “Have studied overseas” responses. If we look at the responses by desired growth type after startup, the proportion of entrepreneurial hopefuls and people making startup preparations who responded “Have studied overseas” is higher among those targeting high growth than for other growth types.

This suggests that the proportions of respondents who have studied overseas are higher among entrepreneurial hopefuls and people making startup preparations in

younger age groups, and that the more overseas study experience respondents have, the more likely they are to try starting up businesses that target high growth.

Fig. 2-1-24 Overseas study experience by age group and target growth type after business startup



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Note: The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.

(7) Participation in the entrepreneur community

Here, we look at levels of participation in “entrepreneur communities”, which are gatherings of entrepreneurs and people interested in starting up a business, convened by organizations or individuals. Fig. 2-1-25 shows the results when respondents were asked about their participation in entrepreneur communities and their reasons for participating or not participating. The figure shows that participation rates are definitely not high, with 44.6% of all entrepreneurial hopefuls and people making startup preparations participating in entrepreneur communities. If we look at the responses according to the growth type targeted before business startup, participation rates increase progressively from sustainable growth to stable growth to high growth, with around 60% of entrepreneurial hopefuls and people making startup preparations who are targeting high growth participating in entrepreneur communities.

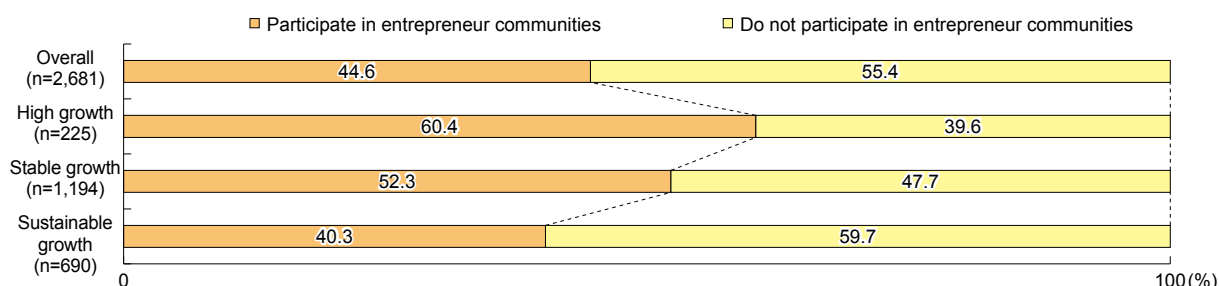
If we now look at people’s reasons for participating, a higher proportion entrepreneurial hopefuls and people making startup preparations who are targeting high growth responded “To get business tips” or “To gain the expertise needed to start up a business (how to formulate a business plan, etc.)” compared with those targeting other growth types. This indicates that such people actively participate in entrepreneur communities before starting up a business in order to acquire business-related tips and expertise. By contrast, a higher proportion entrepreneurial hopefuls and people making startup preparations who are targeting sustainable growth responded “To meet successful entrepreneurs/managers” compared with those targeting other growth types. From this, we can infer that such people participate in entrepreneur communities before starting up a business not to acquire business-related knowledge or expertise, but to establish contacts and networks.

Finally, if we look at people's reasons for not participating in entrepreneur communities, the highest proportion of respondents opted for "Unaware that entrepreneur communities existed". However, the proportion of entrepreneurial hopefuls and people making startup preparations who responded "I don't feel like I would benefit from participating" is higher among those

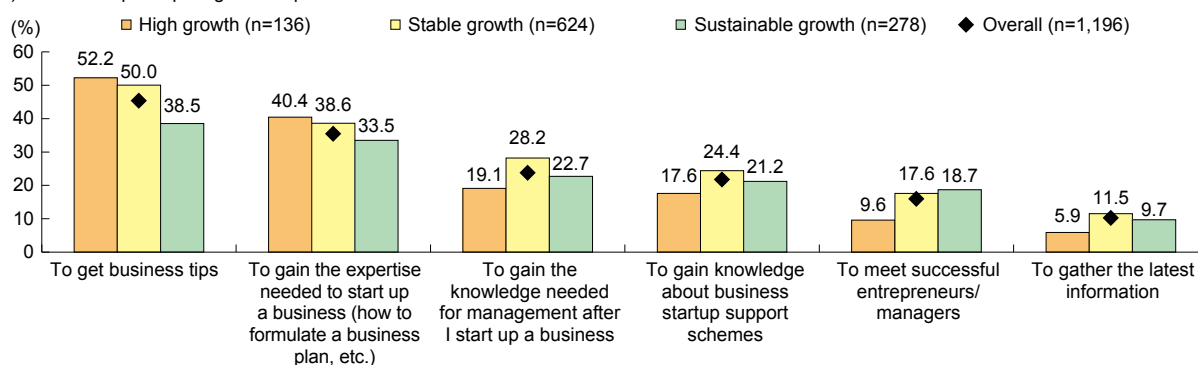
targeting high growth than for other growth types. So it seems that, compared with entrepreneurial hopefuls and people making startup preparations targeting other growth types, those aiming for high growth have higher rates of participation in entrepreneur communities. But it also appears to be the case that there is a set number of people who do not see the need for such external communities.

Fig. 2-1-25 Participation rates in entrepreneur communities by target growth type after business startup

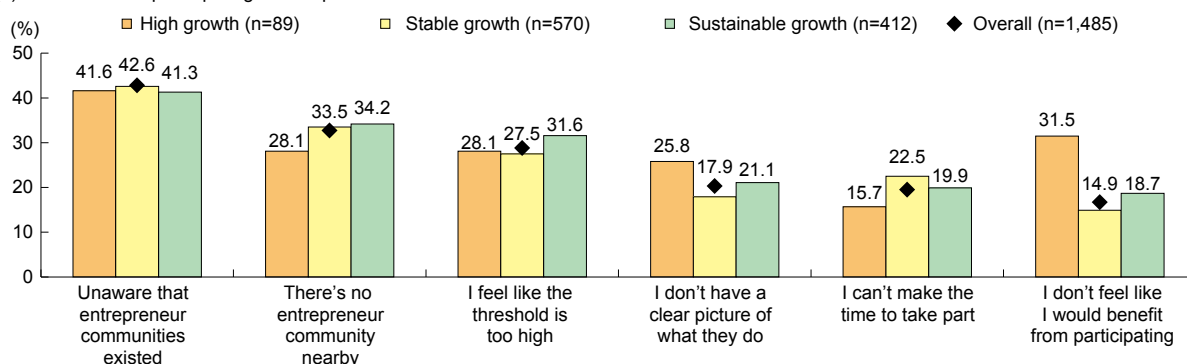
(1) Participation in entrepreneur communities



(2) Reason for participating in entrepreneur communities



(3) Reason for not participating in entrepreneur communities



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
2. (2) and (3) list the six items with the highest proportion of responses overall.
3. The totals in (2) and (3) may not necessarily be 100% as multiple responses were possible.

(8) Reasons why entrepreneurial hopefuls have not started preparations for business startup

Below we focus on entrepreneurial hopefuls and people making startup preparations and identify the issues they each face and the support policies they use to progress to the next stage. Fig. 2-1-26 shows the reasons why entrepreneurial hopefuls do not start making concrete preparation to start up businesses according to gender and age group.

If we begin by looking at men, the “Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business” response drew the highest proportion of responses in the 34 or younger and 60 or older age groups. The next most popular responses in those age groups were “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)” followed by “I can’t see any way to procure funding (including subsidies and self-funding)”. However, the figure also shows that the most popular response in the 35–59 age group was “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)”, followed by “I can’t see any way to procure funding (including subsidies and self-funding)”. This indicates that male entrepreneurial hopefuls aged 34 or younger and 60 or older do not progress to the stage of preparing to start up a business because they lack the specialist knowledge and management knowledge or expertise required in business. We also learn that male entrepreneurial hopefuls in the 35–59 age group cannot begin their preparations for starting up a business because they are concerned about the losses when the business fails and because they are

unable to find sources of funding to start up a business.

If we now turn our attention to women, the response with the highest proportion across all age groups is “Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business”. This was followed by “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)” and then “I can’t see any way to procure funding (including subsidies and self-funding)” among women in the 34 or younger and 35–59 age groups, while a lower proportion of women aged 60 or older selected “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)” and a higher proportion of that age group selected “I can’t see any way to procure funding (including subsidies and self-funding)”. Also in the 60 or older age group, the proportion who chose “Changing home situation (marriage/birth/nursing care, etc.)” was higher than the other age groups. Compared with male entrepreneurial hopefuls, a higher proportion of female entrepreneurial hopefuls responded “I can’t picture starting up a business in any detail”. This shows that female entrepreneurial hopefuls are not preparing to start up a business because, compared with male entrepreneurial hopefuls, they do not have a concrete vision for their business startup and they lack the specialist knowledge and management knowledge needed in business. We can also see that female entrepreneurial hopefuls aged 59 or younger do not start preparing to start up a business due to concerns about the business startup itself, while the issues for women aged 60 or older are their inability to find funding sources and changes in their home or family situations.

Fig. 2-1-26 Reasons why entrepreneurial hopefuls have not started preparations for business startup according to gender and age group

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=210)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (33.3%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (29.0%)	I can't see any way to procure funding (including subsidies and self-funding) (23.8%)	I don't know in detail how to start up a business (19.5%)	I can't think of any specific ideas for products or services (16.7%)
	35–59 (n=333)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (33.0%)	I can't see any way to procure funding (including subsidies and self-funding) (29.1%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (26.7%)	I don't know in detail how to start up a business (15.6%)	I don't have any free time (13.2%)
	60 or older (n=111)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (28.8%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (26.1%)	I can't see any way to procure funding (including subsidies and self-funding) (22.5%)	I don't know in detail how to start up a business (21.6%)	I can't picture starting up a business in any detail (15.3%)
Women	34 or younger (n=214)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (33.2%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (28.5%)	I can't see any way to procure funding (including subsidies and self-funding) (25.7%)	I can't picture starting up a business in any detail (19.6%)	I don't have any free time (17.8%)
	35–59 (n=382)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (28.3%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (28.0%)	I can't see any way to procure funding (including subsidies and self-funding) (20.9%)	I can't picture starting up a business in any detail (20.7%)	I don't know in detail how to start up a business (16.0%)
	60 or older (n=107)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (29.9%)	I can't see any way to procure funding (including subsidies and self-funding) (25.2%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (20.6%)	Changing home situation (marriage/birth/nursing care, etc.) (19.6%)	I don't know in detail how to start up a business (18.7%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. The table shows the totals of responses from entrepreneurial hopefuls.
2. The table shows the five items with the highest proportion of responses for each category.
3. Total does not always equal 100% as multiple responses were possible.

(9) Reasons why people making startup preparations embarked on concrete measures

Here, we look at the responses when people making startup preparations were asked why they made the decision to begin concrete preparations, according to gender and age group, as shown in Fig. 2-1-27. The figure shows that for both genders and across all age groups, the highest proportion of respondents chose “My family understood and helped me start up the business”. Among men, the responses with the next highest proportions were “I had some specific ideas for products or services” followed by “I found people to advise me on starting up a business” in the 34 or younger age group, “I had built up

the knowledge and experience needed for a business” and then “I had some specific ideas for products or services” in the 35–59 age group, and “I had built up the knowledge and experience needed for a business” followed by “I had some free time” in the 60 or older age group.

If we look at the women who responded, we see that the highest proportion went to “My family understood and helped me start up the business”, followed in the case of the 34 or younger and 35–59 age groups by “Changing home situation (marriage/birth/nursing care, etc.)” and then “I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.)”. In the 60 or older age group, the next highest proportion selected “I

learned in detail how to start up a business”, followed by “I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.)”.

This shows that, in order for would-be entrepreneurs of either gender and in any age group to start concrete preparations for business startup, it is important that they have the understanding and cooperation of family members regarding the business startup. The data also

shows that the factors that trigger preparing for business startup in men are likely to be specific ideas for products and services along with acquiring the knowledge and experience needed in business. For women, the corresponding factors are likely to be changes in their family situation and prompting to start up a business from their friends and the other people around them.

Fig. 2-1-27 Reasons why people making startup preparations embarked on concrete measures according to gender and age group

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=210)	My family understood and helped me start up the business (32.4%)	I had some specific ideas for products or services (19.7%)	I found people to advise me on starting up a business (17.6%)	I learned in detail how to start up a business (16.5%)	I had a definite idea for an enterprise that will contribute to society (16.0%)
	35–59 (n=333)	My family understood and helped me start up the business (31.8%)	I had built up the knowledge and experience needed for a business (27.7%)	I had some specific ideas for products or services (16.9%)	I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.) (15.9%)	I found people to advise me on starting up a business (15.9%)
	60 or older (n=111)	My family understood and helped me start up the business (34.5%)	I had built up the knowledge and experience needed for a business (33.6%)	I had some free time (28.4%)	I learned in detail how to start up a business (16.5%)	Couldn't do what I wanted to at work (16.4%)
Women	34 or younger (n=214)	My family understood and helped me start up the business (32.3%)	Changing home situation (marriage/birth/nursing care, etc.) (20.3%)	I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.) (17.2%)	I found people to advise me on starting up a business (16.7%)	I had some specific ideas for products or services (14.1%)
	35–59 (n=382)	My family understood and helped me start up the business (29.1%)	Changing home situation (marriage/birth/nursing care, etc.) (20.7%)	I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.) (19.2%)	I had some specific ideas for products or services (18.8%)	I had some free time (18.0%)
	60 or older (n=107)	My family understood and helped me start up the business (30.6%)	I learned in detail how to start up a business (25.8%)	I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.) (24.2%)	I had built up the knowledge and experience needed for a business (24.2%)	I found people to advise me on starting up a business (19.4%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. The table shows the totals of responses from people making startup preparations.

2. The table shows the five items with the highest proportion of responses for each category.

3. Total does not always equal 100% as multiple responses were possible.

(10) Details of the support policies people making startup preparations used when they began preparing

Fig. 2-1-28 shows the responses returned when people making startup preparations were asked about the support policies they used when they started their business startup preparations. If we begin by looking at men, the responses with the highest proportions across all age groups were “Provision of information concerning startups and management via the Internet” and “Advice

on business startups and management”. Other popular responses included “Courses to support business startups/management” in the 34 or younger and 35–59 age groups. However, the proportions who used “Support for various startup procedures” increased as the respondents’ ages increased. If we look next at women, the responses with the highest proportions across all age groups were “Advice on business startups and management”, followed by “Provision of information concerning startups and management via the Internet”. The proportions for

“Courses to support business startups/management” were relatively high in the 34 or younger and 35–59 age groups, while we also see that a set number of respondents in the 34 or younger and 60 or older age groups used “Support for balancing work and family, such as childcare facilities and assistance with housework and nursing”.

This suggests that when people making startup preparations being the process of preparing to start up their business, regardless of gender or age, they seek of advice on starting up and managing a business from family, friends, local entrepreneurs and managers and support

providers such as societies and chambers of commerce and industry, and they act on the basis of information on business startups they have collected via the Internet from websites such as the Mirasapo management support portal site. We also see that entrepreneurial hopefuls aged 59 or younger participate in seminars relating to business startup, such as those given by business startup schools, and that female entrepreneurial hopefuls in the 34 or younger and 60 or older age groups will use services such as childcare facilities and nursing care support.

Fig. 2-1-28 Details by gender and age group of the support policies people making startup preparations used when they began preparing

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=120)	Provision of information concerning startups and management via the Internet (54.2%)	Advice on business startups and management (48.3%)	Courses to support business startups/management (35.8%)	Building and coordinating support networks for entrepreneurs, etc. (24.2%)	Subsidies/grants to support business startups (23.3%)
	35–59 (n=177)	Advice on business startups and management (59.3%)	Provision of information concerning startups and management via the Internet (52.0%)	Courses to support business startups/management (33.3%)	Support for various startup procedures (27.1%)	Subsidies/grants to support business startups (26.6%)
	60 or older (n=57)	Provision of information concerning startups and management via the Internet (50.9%)	Advice on business startups and management (47.4%)	Support for various startup procedures (36.8%)	Courses to support business startups/management (24.6%)	Building and coordinating support networks for entrepreneurs, etc. (22.8%)
Women	34 or younger (n=126)	Advice on business startups and management (53.2%)	Provision of information concerning startups and management via the Internet (39.6%)	Courses to support business startups/management (31.0%)	Support for various startup procedures (23.8%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (23.0%)
	35–59 (n=149)	Advice on business startups and management (52.3%)	Provision of information concerning startups and management via the Internet (40.3%)	Courses to support business startups/management (26.8%)	Support for various startup procedures (20.1%)	Subsidies/grants to support business startups (20.1%)
	60 or older (n=38)	Advice on business startups and management (52.6%)	Provision of information concerning startups and management via the Internet (50.0%)	Building and coordinating support networks for entrepreneurs, etc. (28.9%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (26.3%)	Funding for renewed startups (23.7%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(11) Details of the support policies people making startup preparations wanted to use when they began preparing

Here, we will look at the support policies people making startup preparations would have liked to use when they began preparing to start up a business (Fig. 2-1-29). The figure shows that for both genders and across all

age groups, the highest proportion of respondents chose “Courses to support business startups/management”. If we look specifically at men, the next highest proportion in the 34 or younger age group chose “Financing to support business startups (excluding funding for renewed startups)”, those aged 35–59 chose “Investment to support business startups” and men aged 60 or older

chose “Support for balancing work and family, such as childcare facilities and assistance with housework and nursing”. This shows that the support policies men would have liked to use differ according to age group. Looking next at women, in all age groups they first chose “Courses to support business startups/management” and then “Subsidies/grants to support business startups”.

Among both men and women, high proportions chose options that support fund procurement, namely “Financing to support business startups (excluding funding for renewed startups)”, “Subsidies/grants to support business startups”, “Investment to support business startups” and “Funding for renewed startups”. Summarizing this data, it appears that when people making startup preparations actually started preparing to start up a business, regardless

of gender or age, they would have liked access to support policies that address funding procurement issues, such as financing, investment, subsidies and grants, along with educational courses that support business startups and management, such as those available at business startup schools. The data also confirms that when women making startup preparations actually started preparing to start up a business, they would have liked access to support for balancing work and family, such as childcare and nursing care facilities, as shown in Fig. 2-1-28. And as Fig. 2-1-29 shows, men also would have liked access to support for balancing work and family. This demonstrates that, to boost the numbers of people making startup preparations in the future, we need to further improve our support policies, including carefully tailored support programs.

Fig. 2-1-29 Details by gender and age group of the support policies people making startup preparations wanted to use when they began preparing

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=93)	Courses to support business startups/management (36.6%)	Financing to support business startups (excluding funding for renewed startups) (30.1%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (29.0%)	Advice on business startups and management (28.0%)	Investment to support business startups (23.3%)
	35-59 (n=133)	Courses to support business startups/management (42.9%)	Investment to support business startups (33.8%)	Subsidies/grants to support business startups (30.8%)	Financing to support business startups (excluding funding for renewed startups) (30.1%)	Advice on business startups and management (27.8%)
	60 or older (n=50)	Courses to support business startups/management (50.0%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (34.0%)	Subsidies/grants to support business startups (32.0%)	Support for personnel acquisition (32.0%)	Funding for renewed startups (30.0%)
Women	34 or younger (n=86)	Courses to support business startups/management (43.0%)	Subsidies/grants to support business startups (29.1%)	Support for personnel acquisition (27.9%)	Financing to support business startups (excluding funding for renewed startups) (26.7%)	Investment to support business startups (26.7%)
	35-59 (n=117)	Courses to support business startups/management (38.5%)	Subsidies/grants to support business startups (27.4%)	Financing to support business startups (excluding funding for renewed startups) (26.5%)	Rental services for private sector office space, office equipment, etc. (26.5%)	Advice on business startups and management (24.8%)
	60 or older (n=39)	Courses to support business startups/management (46.2%)	Subsidies/grants to support business startups (38.5%)	Investment to support business startups (30.8%)	Tax incentives for business startups (26.3%)	Financing to support business startups (excluding funding for renewed startups) (28.2%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(12) Reasons why people making startup preparations failed to start up a business

Next, we look at the reasons why people making startup preparations were unable start up their businesses. Fig. 2-1-30 shows the reasons why people making startup preparations failed to start up a business according to gender and age group. If we focus first on men, the

highest proportion across all age groups gave “Couldn’t procure funding” as their reason, followed by “Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business”. Other findings are that high proportions selected “Opposed by those around me (family, relatives, friends, acquaintances, entrepreneurs, managers, etc.)” in the 34 or younger age

group and “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)” in the 35 or older age group. Looking at women next, like men, the highest proportion across all age groups gave “Couldn’t procure funding” as their reason. The data also shows that, in the 34 or younger and 35–59 age groups, the proportion selecting “Changing home situation (marriage/birth/nursing care, etc.)” is higher than other age groups, and in the 60 or older cohort, the proportion selecting “Concerns about health/physical condition” is higher than the other age groups. In summary, the single commonest reason why people making startup preparations failed to

actually start up a business, regardless of gender and age, was that they were unable to procure funding. The data also shows that men were unable to start up a business because they lacked the required knowledge and expertise, those around them opposed the idea and they had concerns about securing staff. For women, various factors prevented them from starting up a business, including first and foremost their lack of required knowledge and expertise, changes in their home situation and concerns about their health and physical condition, and the reasons given differed by age group.

Fig. 2-1-30 Reasons why people making startup preparations failed to start up a business, according to gender and age group

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=166)	Couldn't procure funding (31.9%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (16.9%)	Opposed by those around me (family, relatives, friends, acquaintances, entrepreneurs, managers, etc.) (16.3%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (13.9%)	Couldn't find enough workers (12.7%)
	35–59 (n=259)	Couldn't procure funding (34.7%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (16.6%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (15.1%)	Couldn't secure good staff (administration, sales, technical, etc.) (12.7%)	Couldn't conduct market development/marketing (12.4%)
	60 or older (n=88)	Couldn't procure funding (31.8%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (21.6%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (18.2%)	Opposed by those around me (family, relatives, friends, acquaintances, entrepreneurs, managers, etc.) (12.5%)	I don't know in detail how to start up a business (11.4%)
Women	34 or younger (n=169)	Couldn't procure funding (31.9%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (21.6%)	Changing home situation (marriage/birth/nursing care, etc.) (17.8%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (17.2%)	Couldn't acquire the permits/qualifications needed for the business (16.6%)
	35–59 (n=228)	Couldn't procure funding (30.3%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (19.7%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (19.3%)	Changing home situation (marriage/birth/nursing care, etc.) (12.7%)	Couldn't develop products/services, etc. (11.4%)
	60 or older (n=49)	Couldn't procure funding (26.5%)	Couldn't conduct market development/marketing (26.5%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (20.4%)	Concerns about health/physical condition (18.4%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (16.3%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(13) Details of the support policies used by entrepreneurs when starting up a business

Here, we look at exactly how entrepreneurs came to start up their businesses. Fig. 2-1-31 shows the responses by gender when entrepreneurs who had actually launched a business were asked about the support policies they used when they started up their business. Looking at the figure, the responses with the highest proportions across both genders were “Advice on business startups and management”, followed by “Provision of information concerning startups and management via the Internet” and then “Support for various startup procedures”. It also shows that male entrepreneurs are more likely to use “Courses to support business startups/management” than

their female counterparts, while higher proportions of female entrepreneurs use “Investment to support business startups” than their male counterparts. From this, it seems likely that when entrepreneurs of both genders start up a business, they seek advice from family and friends, from nearby senior managers and from support providers such as societies and chambers of commerce and industry and Yorozu support centers. Coupled with business startup and management consultations, they also use sources such as the Internet to collect their own information on business startup and management, and also seek help with procedural issues, such as assistance from support providers in formulating business plans.

Fig. 2-1-31 Details by gender of the support policies used by entrepreneurs when starting up a business

	1st	2nd	3rd	4th	5th
Men (n=83)	Advice on business startups and management (59.0%)	Provision of information concerning startups and management via the Internet (28.9%)	Support for various startup procedures (24.1%)	Courses to support business startups/management (18.1%)	Investment to support business startups (9.6%)
Women (n=64)	Advice on business startups and management (65.6%)	Provision of information concerning startups and management via the Internet (21.9%)	Support for various startup procedures (21.9%)	Investment to support business startups (17.2%)	Courses to support business startups/management (15.6%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from entrepreneurs.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(14) Details of the support policies entrepreneurs wanted to use when starting up a business

Next, Fig. 2-1-32 shows the results by gender for the support policies entrepreneurs would have liked to use when they started up their business but were unable to access. The figure shows that male entrepreneurs would have liked access to “Courses to support business startups/management”, followed by “Subsidies/grants to support business startups” and then “Advice on business startups and management”, while female entrepreneurs wanted access to “Subsidies/grants to support business startups”, followed by “Financing to support business startups” and then “Courses to support business startups/management”.

This indicates that among actual entrepreneurs there is a significant need among men for courses relating to starting up and managing a business, including business startup schools and business startup and management seminars. Among women, the needs are slightly different as they wanted grants and subsidies such as the New Business Support Fund and its successor, together with business-startup-related financing of the sort offered by private and governmental financial institutions. This suggests that women had more difficulty than men in obtaining support for funds procurement when starting up a business, whether it be grants, subsidies or other forms of financing.

Fig. 2-1-32 Details by gender of the support policies entrepreneurs wanted to use when starting up a business

	1st	2nd	3rd	4th	5th
Men (n=44)	Courses to support business startups/management (36.4%)	Subsidies/grants to support business startups (34.1%)	Advice on business startups and management (29.5%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (25.0%)	Support for various startup procedures (25.0%)
Women (n=44)	Subsidies/grants to support business startups (36.4%)	Financing to support business startups (34.1%)	Courses to support business startups/management (27.3%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (25.0%)	Rental services for private sector office space, office equipment, etc. (26.5%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from entrepreneurs.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

Above, we have analyzed the actual conditions and issues facing entrepreneurial hopefuls and people making startup preparations. The results show that, depending on gender and age group, there are differences in the issues faced in the process of starting up a business and in the ways support policies are utilized. We also learned that even among successful entrepreneurs, there were some who did not necessarily get the support they would have liked when launching their businesses. So it seems likely that we would be able to increase the proportions of successful business startups by ensuring that current entrepreneurial hopefuls and people making startup

preparations go through a process whereby each of them identifies the sorts of startup support policies that will address the issues they face and then consult with support providers such as societies and chambers of commerce and industry and Yorozu support centers, before going on to take advantage of financing, investment, subsidies and other support policies. For this to happen, it is important that the national government and support providers actively disseminate publicity on business startup support policies to entrepreneurial hopefuls and people making startup preparations.

In this column, we will examine the business startup support policies in Japan.

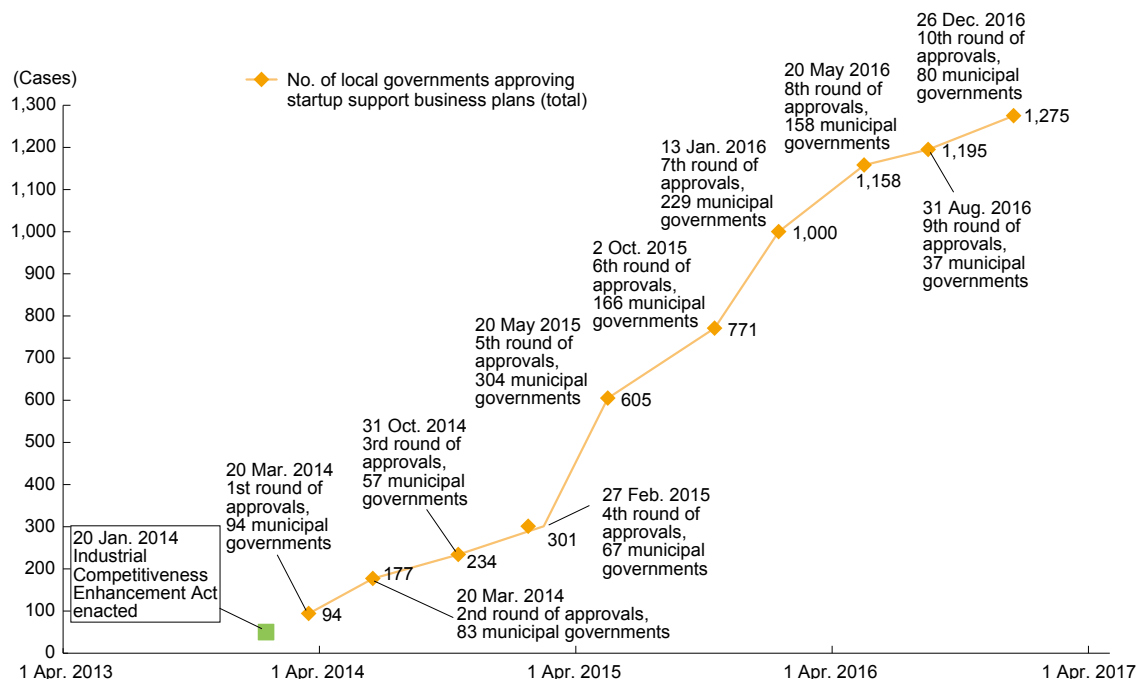
Under the Industrial Competitiveness Enhancement Act enacted on 20 January 2014, municipality governments and private sector businesses (regional financial institutions, specified non-profit organizations, societies and chambers of commerce and industry, etc.) are working together to provide support for business startups with the aim of promoting new businesses in regional Japan.

Fig. Column 2-1-3 (1) Overview of the regional business startup support scheme based on the Industrial Competitiveness Enhancement Act



2017 White Paper on Small Enterprises in Japan

Fig. Column 2-1-3 (2) Startup support business plan formulation



Source: SME Agency data

[Startup Subsidy] (subsidy for business startups)

For entrepreneurs who wish to be accepted into a specified startup support scheme to start up a business, the costs of business startup are partly subsidized by a specified municipal government or approved business startup support providers under the Industrial Competitiveness Enhancement Act.

[Overview]

Aim	To revitalize regional economies by partially subsidizing the business startup costs incurred by people starting up new businesses, thereby promoting the creation of new demand and employment in the regions.
Eligible businesses	Businesses that meet all of criteria (1) to (3) below 1) A business run by a person starting up a new business that creates demand and employment using a business model that reveals hidden value and adapts existing technology 2) A business run by a person accepted into a specified startup support scheme as part of a startup support business plan before the business is completed 3) A business that employs at least one person while it is running
Maximum subsidy	¥2 million Note: ¥1 million if outside funding is not procured
Subsidy rate	One half of eligible costs

[Business startup support providers subsidy] (subsidy for business startup support providers)

The costs of programs to support business startups (including startup needs arising from secondary or subsidiary businesses) carried out by private sector support providers in cooperation with municipal governments and in accordance with a municipal government startup support business plan that has been approved by the national government are partially subsidized under the Industrial Competitiveness Enhancement Act.

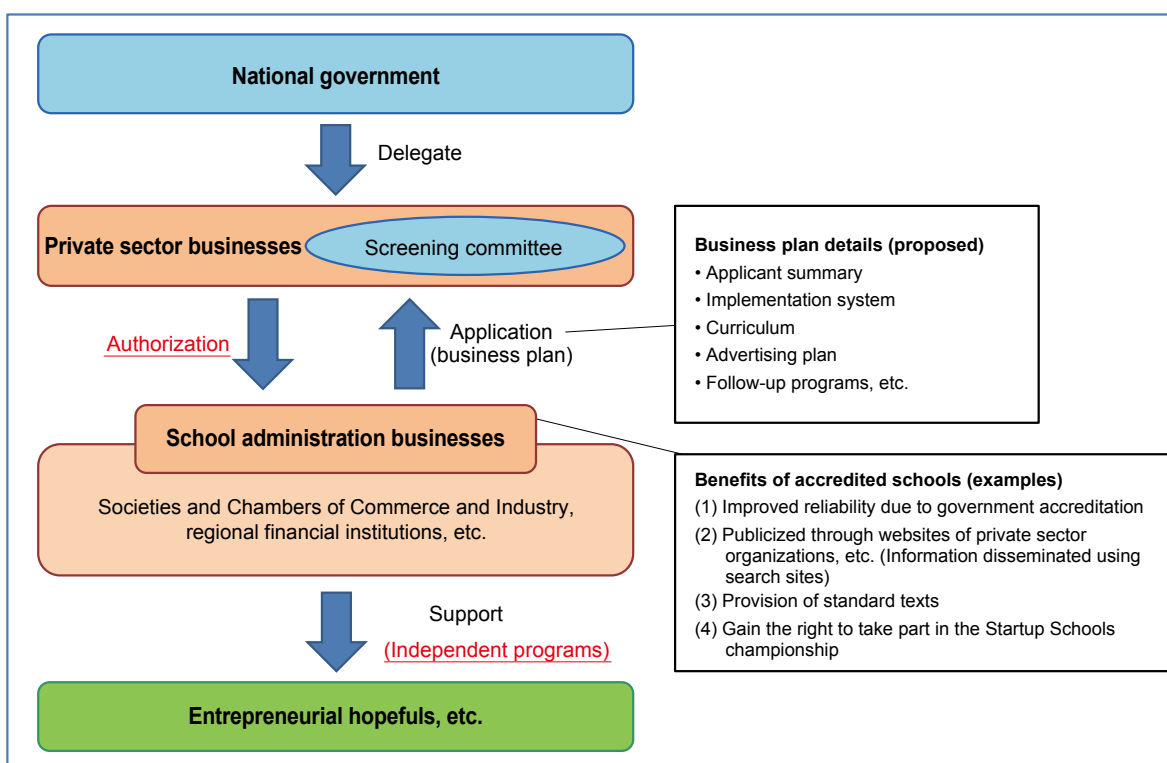
[Overview]

Eligible programs	Startup support programs (programs that include a specified startup support scheme) implemented by approved business startup support providers in cooperation with municipal governments under an approved startup support business plan
Maximum subsidy	¥10 million (subsidy of ¥1 million for small-scale business plans)
Subsidy rate	Two-thirds of eligible costs
Eligible costs	Personnel costs (new employees), specialist fees, travel expenses, equipment costs (less than ¥500,000 per unit), leasing costs (co-working space, etc.), advertising costs, subcontracting costs, etc. Note: Real estate acquisition costs, interior construction costs, communication costs (phone charges, etc.) and utility (heating, water, etc.) charges are not subsidized.

[Startup School Accreditation Scheme]

Started in FY2017, the Startup School Accreditation Scheme offers business startup schools that meet set standards Japanese government accreditation via private sector businesses entrusted with the task. Such accredited schools are run by school administration businesses and provide support ranging from teaching basic knowledge of matters required for business, such as finance and taxation, through to drawing up business plans. (This system takes over from the "Startup Schools" scheme that operated until FY2016 (a system under which private sector organizations entrusted by the national government with subcontracting to school administration businesses which in turn provided newly formulated national government support to entrepreneurial hopefuls).) (Fig. Column 2-1-3 (3)).

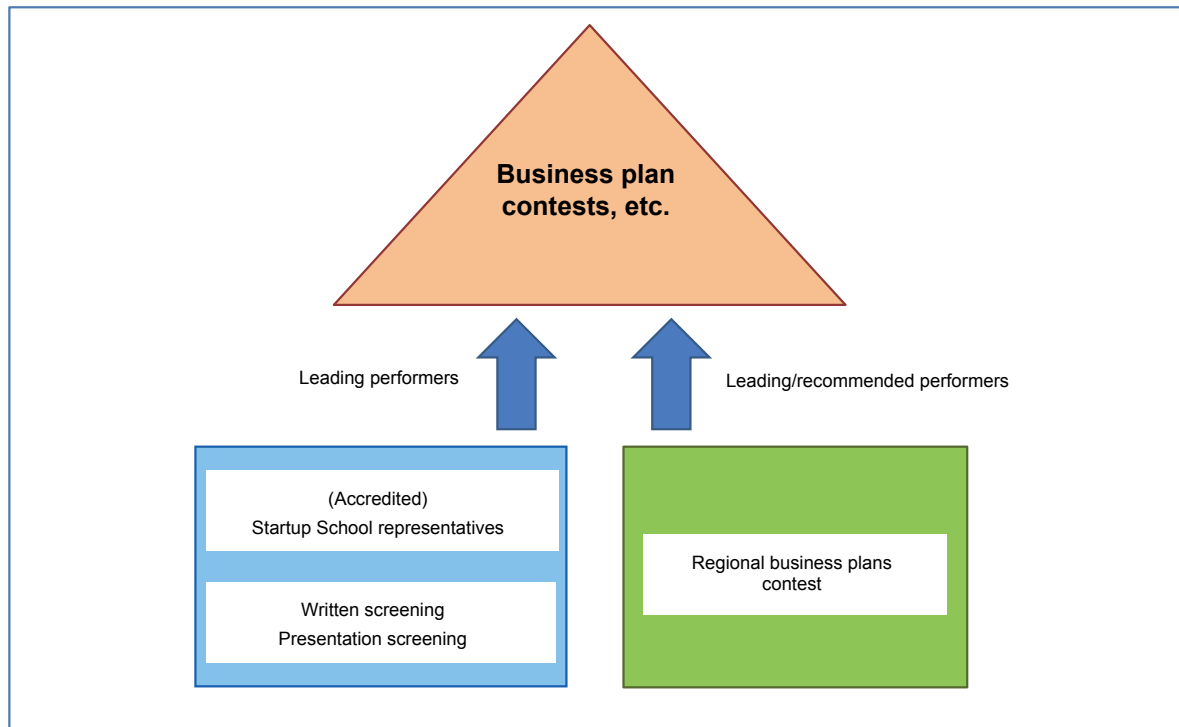
Fig. Column 2-1-3 (3) Startup School Accreditation Scheme



[Programs for discovering potential founders]

By bringing together representatives from accredited Startup Schools and leading performers and recommended participants in regional business plan contests for nationwide business plan contests, we are raising awareness of business startups throughout Japan and discovering potential new business founders (Fig. Column 2-1-3 (4)).

Fig. Column 2-1-3 (4) Schematic of the programs for discovering potential founders



Case 2-1-2 Atelier DEMETAN

An example of a business started using local traditional crafts, prompted by study at a business start-up school

Atelier DEMETAN, located in Honjo City, Saitama Prefecture, was founded in 2015 by its representative, Emi Uchihara. In addition to all-leather bags, the company also designs, manufactures and markets bags that make use of the techniques of traditional local crafts such as Honjo textiles and Kiryu embroidery and the materials that they produce. The concept of combining traditional textiles with leather and the new designs that this has produced have been well received, and have attracted considerable attention. For example, in 2016, the company was awarded the Grand Prize (the Minister of Economy, Trade and Industry Award) at the 2nd National Business Start-up school Championships held by the SME Agency, which grants awards to the best business plans created by business start-up school students throughout the country.

After graduating from university, Ms. Uchihara worked for a publisher in Tokyo. One of her hobbies was the manufacture of original bags from the design stage, and selling these bags via the Internet and other means provided a sideline to her regular employment. After getting married, Ms. Uchihara quit her job with the publisher, moved back to her hometown of Honjo City, and began looking for a new job. However, she was unable to find a rewarding job that made use of her previous experience working for the publisher in the local area. At this time, she happened to see an article in a local PR magazine regarding a “business start-up school” that was looking for students. Thinking that if she could not find a job that she wanted to do, she should create her own job, and that doing so would allow her to turn her bag-making, which she had continued as a hobby, into a job, Ms. Uchihara applied to the school. Through a course of seven lectures, she received constructive criticism and advice as she learned about methods of formulating business plans and the necessary procedures involved in starting a business, and gained specialized knowledge and knowhow. She also made friends with other people who desired to start a business like her, and the mutual stimulation provided by this company made Ms. Uchihara’s dream of starting a business stronger and stronger. Having learned about businesses that are strongly rooted in their specific regions at the business start-up school, Ms. Uchihara considered Honjo textiles, a traditional craft product of her hometown of Honjo City in Saitama Prefecture, and, based on her desire to protect local traditional crafts, decided to start a business designing, manufacturing and marketing bags that incorporated Honjo textiles as a material. While taking lectures at the business start-up school, she started a sole-proprietor business under the name Atelier DEMETAN.

With the winning of the business start-up school competition mentioned at the outset and attention from television programs and newspapers, the company’s brand recognition steadily increased, and it also developed an excellent reputation by word of mouth. As a result, orders have now increased to the extent that one person cannot keep up with them. In addition, Ms. Uchihara gave birth to her first child last year, and now operates the business while focusing on child-raising. While engaged in child-raising duties, Ms. Uchihara is unable to concentrate exclusively on her business, and it is difficult to secure enough time to make the bags. Speaking forcefully, Ms. Uchihara says, “Balancing running a business with raising a child is the immediate challenge. The understanding of your family, in particular your spouse, is essential. Even at a time like today,

when we encourage women to participate in society and return to work after having children, it is still difficult to balance work and family, and a lot of women stop working. I believe that there should be greater diversity in working styles, as many working styles as there are women, including the option of starting a business. I don’t want to give up being a businesswoman. In the future, I will work to balance business and child-raising, focusing on the establishment of a production system and further expanding my sales channels, getting my bags known by even more people. In doing so, I want to make my brand a Honjo brand that is world class.”



Atelier DEMETAN's original bags, combining Honjo textiles and leather

Case 2-1-3 Iga Pizza

A company that is addressing regional problems using regional resources

Iga Pizza, located in Iga City, Mie Prefecture, is a sole proprietor business founded in 2015 by its representative, Kiyomi Yamamoto. The company operates a pizza restaurant using rice flour made from Iga rice.

After graduating from university, Ms. Yamamoto found a job manufacturing buttons for a button wholesaler in Osaka. But her colleagues were starting their own businesses one after the other, and inspired by this, Ms. Yamamoto quit the company she had worked at for six years, and set up as a freelancer, making buttons and accessories and painting murals for stores.

After her marriage to a woodworker, the couple found his workshop too cramped, and took the opportunity to move to Iga City. The population of Iga City is declining, and while living there Ms. Yamamoto came to feel strongly that she would like to assist in the revitalization of the area. At a local gathering, the question was put as to whether it would be possible to start some type of business using rice flour produced from Iga rice, a local resource. Ms. Yamamoto participated in an information session concerning the integration of primary, secondary and tertiary industries held by the Iga Society of Commerce and Industry, bringing her plan for pizzas made using rice flour, and a coordinator recommended her to start a business. As a result, she commenced preparations to establish a restaurant, and also began attending a business start-up school run by the Iga Society of Commerce and Industry.

Starting a restaurant requires a considerable amount of funds, for example for outfitting the site itself. Ms. Yamamoto did not have enough funds. She consulted with her business start-up school lecturers, and, with a business start-up grant and her own funds behind her, she obtained joint financing from the Japan Finance Corporation and the Mie Bank, enabling her to secure the necessary capital. Having been successful in procuring funding, she opened Iga Pizza in 2015.

The restaurant has been operated by Ms. Yamamoto and part-time employees since its foundation, and she does not advertise using signs and leaflets, but rather makes announcements and publicizes the restaurant using social networking services. Word of mouth from local people, food bloggers and others has seen customer numbers steadily increase, and business performance is progressing favorably.

Ms. Yamamoto emphasizes, "The fact that I was able to start a business in Iga, where I have no ties or connections, was due to my participation in the business start-up school. While I had an idea for a business, I hadn't gone so far as to think seriously about starting a company. But taking part in the business start-up school at the recommendation of the Society of Commerce and Industry really strengthened my feeling that I wanted to start a business. At present I am focusing on the restaurant business, but in future, other than that I would like to start businesses that make use of nature as a resource available in Iga, for example a business offering nature experiences."



Kiyomi Yamamoto, the founder of Iga Pizza



The exterior of the restaurant

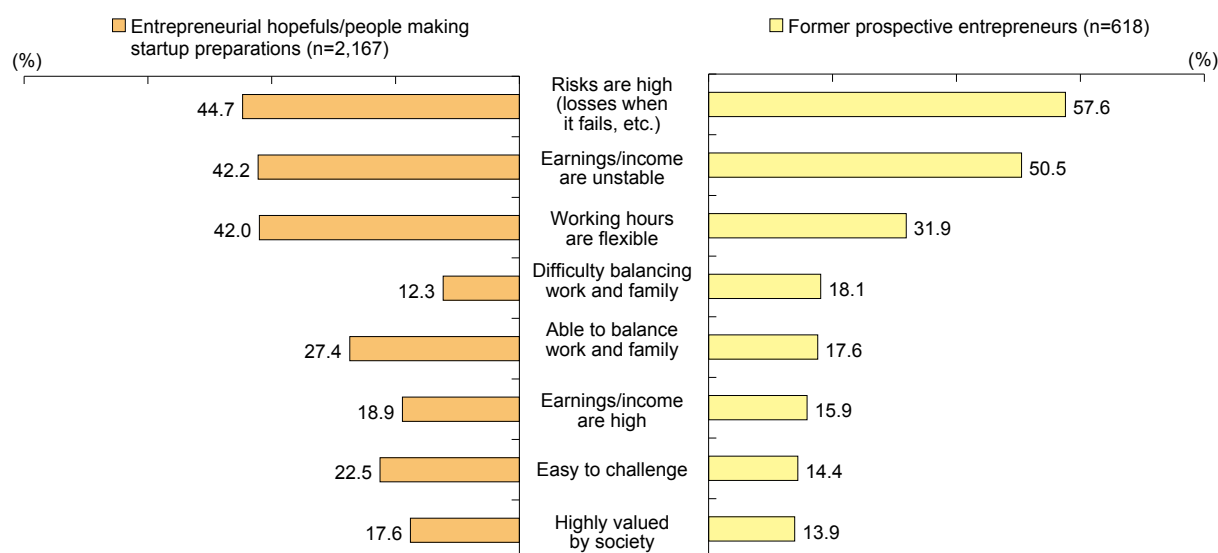
4. Conditions for former prospective entrepreneurs and support that will rekindle interest in business startups

Here, we look again at people not interested in business startups, this time focusing on former prospective entrepreneurs who could again become entrepreneurial hopefuls or people making startup preparations. We will look at the actual situation for such people and also focus on entrepreneurial hopefuls and people making startup preparations who seriously considered abandoning or who did in fact abandon their business startups. Where prospective entrepreneurs considered abandoning their business startups but actually went on to start up a business, will look at who they consulted, and where they did in fact abandon their business startups at one time, we will try to identify what inspired them to try again. This will allow us to consider the types of support that might inspire former prospective entrepreneurs to once again start up a business.

(1) Impressions of business startups held by former prospective entrepreneurs

We begin by looking at the current conditions for former prospective entrepreneurs. Fig. 2-1-33 compares the impressions that former prospective entrepreneurs have of business startups with those of entrepreneurial hopefuls and people making startup preparations. The figure shows that a significantly higher proportion of former prospective entrepreneurs than entrepreneurial hopefuls or people making startup preparations have negative impressions, such as “Risks are high (losses when it fails, etc.)” and “Earnings/income are unstable”.

Fig. 2-1-33 Impressions of business startups held by former prospective entrepreneurs



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.

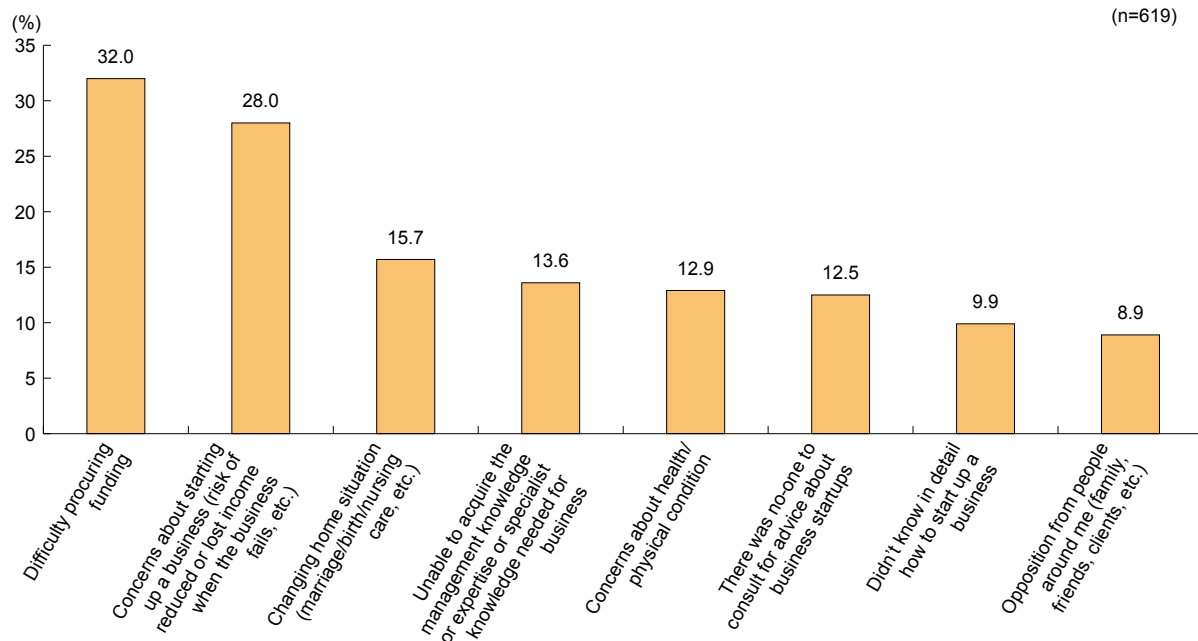
2. The chart lists the eight items with the highest proportion of responses from former prospective entrepreneurs.

(2) Reasons why former prospective entrepreneurs abandoned their business startups

Next, as shown in Fig. 2-1-34, we look at the results when former prospective entrepreneurs were asked for the reasons why they abandoned their business startups. The figure shows that the highest proportion of respondents

chose “Difficulty procuring funding”, followed by “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)”. It is also clear that these two reasons were chosen by significantly more respondents than the other responses.

Fig. 2-1-34 Reasons why former prospective entrepreneurs abandoned their business startups



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

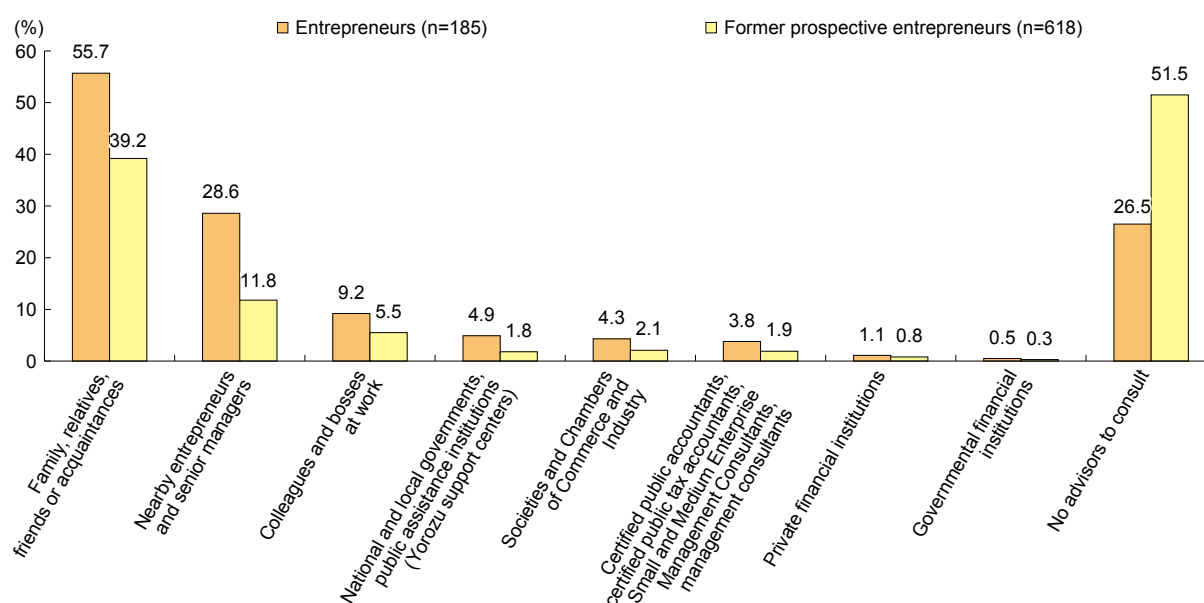
- Notes:
1. The chart shows the totals for responses from former prospective entrepreneurs.
 2. Total does not always equal 100% as multiple responses were possible.
 3. The chart lists the eight items with the highest proportion of responses.

(3) Advisors consulted when business startups were abandoned or likely to be abandoned

Here, we focus on entrepreneurs who seriously considered abandoning their business startups but then went on to start up a business anyway and look at the advisors they consulted when they were thinking of giving up (Fig. 2-1-35). The figure shows that, of the entrepreneurs who seriously considered abandoning their business startups but then went on to start up a business anyway, around 60% consulted “Family, relatives, friends

or acquaintances” and around 30% talked to “Nearby entrepreneurs and senior managers” when they were having doubts. However, of the former prospective entrepreneurs who actually did abandon their business startups, more than half responded, “No advisors to consult”, which suggests that the presence of advisors around entrepreneurs considering abandoning their ventures is an extremely important factor in preventing those startups from being abandoned.

Fig. 2-1-35 Advisors consulted when entrepreneurs considered abandoning business startups but did not, and those consulted when they did



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

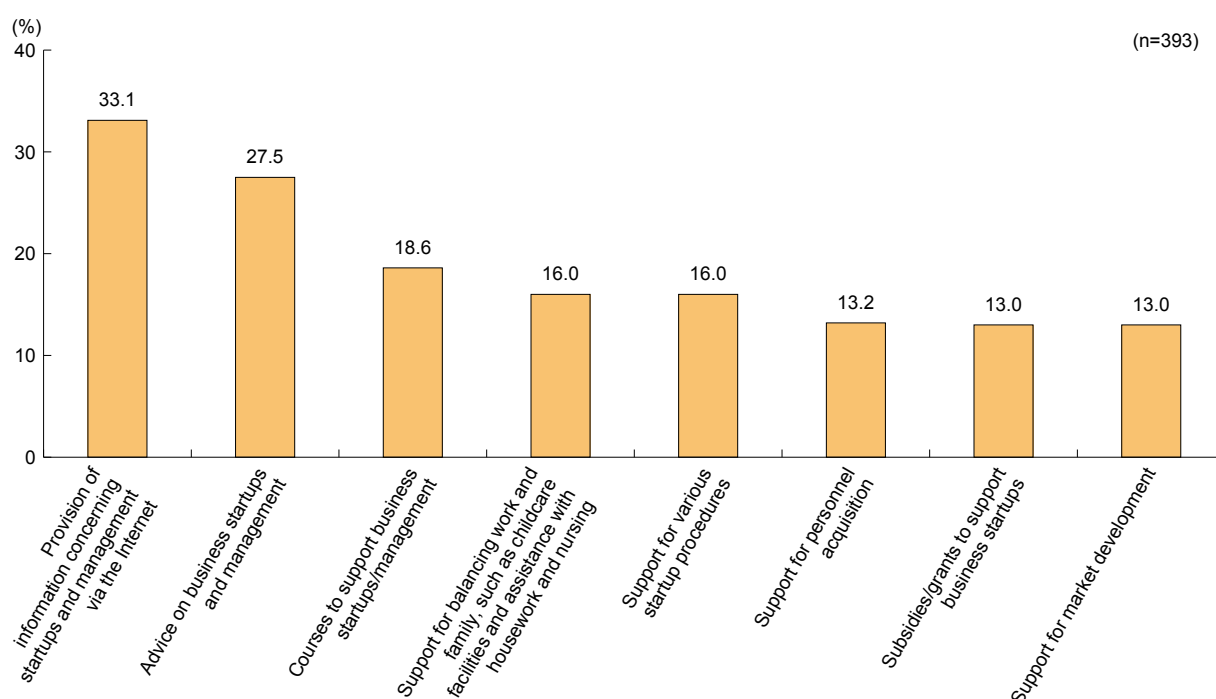
- Notes:
1. The chart shows the totals for responses from entrepreneurs who responded “Once considered abandoning a business startup, but didn’t abandon it”.
 2. Totals are for advisors consulted when entrepreneurs considered abandoning business startups but did not abandon them.
 3. Totals are for advisors consulted when former prospective entrepreneurs abandoned their business startups.
 4. No “Other” category is presented here.
 5. Total does not always equal 100% as multiple responses were possible.

(4) Details of support policies that inspired entrepreneurs and people making startup preparations to resume business startups they had once abandoned

Finally, we look at the support policies that inspired entrepreneurs and people making startup preparations who had once abandoned their business startups to resume starting up a business, as shown in Fig. 2-1-36. The figure shows that the use of various support policies inspired respondents to resume business startups that they had once abandoned, including firstly “Provision of information

concerning startups and management via the Internet” and also “Advice on business startups and management” and “Courses to support business startups/management”. These results again show that entrepreneurs and people making startup preparations who have once abandoned business startups are probably inspired to rediscover their enthusiasm and to resume business startups they have previously abandoned by seeing information about business startups on the Internet or by talking to family and friends or entrepreneurs and managers around them.

Fig. 2-1-36 Details of support policies that inspired entrepreneurs and people making startup preparations to resume business startups they had once abandoned



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals for responses from entrepreneurs and people making startup preparations who responded “Once abandoned a business startup”.
 2. Totals for the proportions exclude people who responded “None in particular”.
 3. The chart lists the eight items with the highest proportion of responses.
 4. Total does not always equal 100% as multiple responses were possible.

Above, we have reviewed the situation for former prospective entrepreneurs and the support policies that are effective in kindling their interest in resuming business startups, and inspiring people who have once abandoned a business startup to revisit starting up a business is key to increasing future business startups in Japan. To achieve this, we will need to go beyond current support agencies,

such as societies and chambers of commerce and industry, local governments and Yoroazu support centers, and provide even better support agencies and communities that will foster the types of entrepreneur communities discussed in Fig. 2-1-25 above, where anyone wishing to start up a business can freely seek advice on their concerns.

Column 2-1-4 Conditions for renewed startups

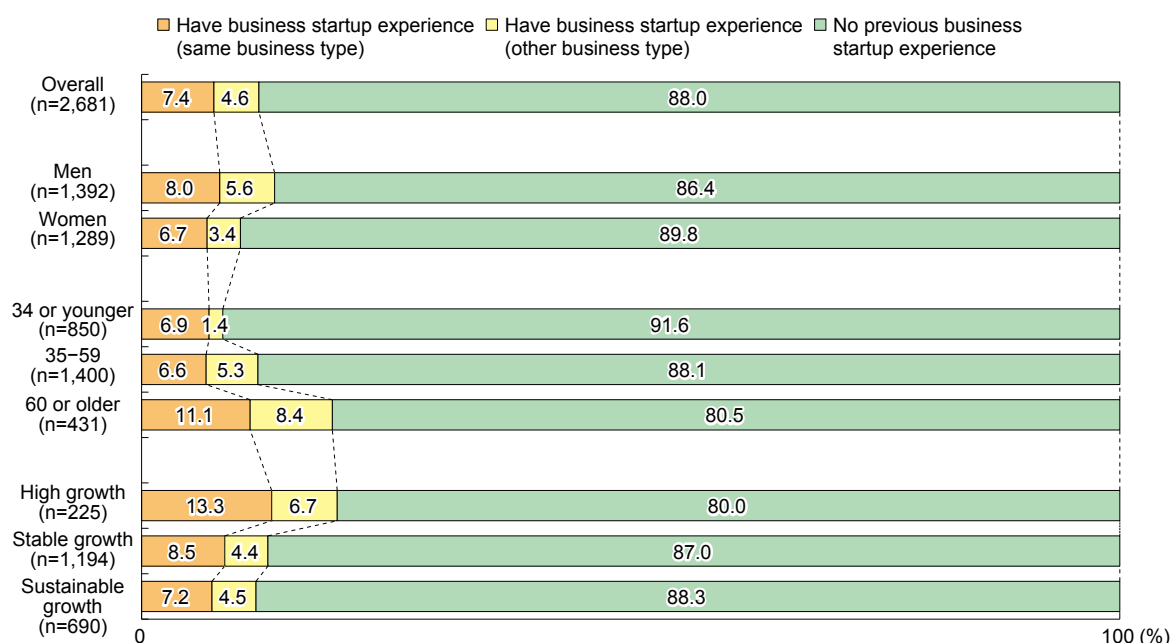
This column will provide an overview entrepreneurial hopefuls and people making startup preparations who have previously abandoned a business startup and are now aiming to resume that startup. In other words, entrepreneurial hopefuls and people making startup preparations now have some experience starting up a business (hereinafter referred to as “aspiring renewed startups” and “people making renewed startup preparations” respectively). Thus far in this document, we have analyzed the types of support that will promote trouble-free business startups and will inspire former prospective entrepreneurs to revisit the idea of starting up a business. But if we are going to increase the number of entrepreneurs in Japan, it is also important that we promote renewed startups by entrepreneurial hopefuls and people making startup preparations who have previously tried to start up a business and failed.

Presence of previous business startup experience

Fig. Column 2-1-4 (1) shows the results of querying entrepreneurial hopefuls and people making startup preparations both with and without past startup experience. The results are classified according to gender, age group and the desired growth type after startup. If we begin by looking at the results by gender, a higher proportion of men than women responded “Have business startup experience”. Looking next at the results by age group, more respondents in the 60 or older age group opted for “Have business startup experience” than in the other age groups. In terms of the types of business they were considering as a startup, a high proportion of respondents in all the age groups wanted to start up the same type of business they tried to start up before.

If we look at the responses by the desired growth type after startup, the proportion of “Have business startup experience” responses was higher among entrepreneurial hopefuls and people making startup preparations who are targeting high growth than was the case for those aiming for stable growth or sustainable growth.

Fig. Column 2-1-4 (1) Presence of previous business startup experience



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows only the totals for entrepreneurial hopefuls and people making startup preparations.
 2. Here, “Have business startup experience (same business type)” indicates the total proportions of respondents who have business startup experience in the same type of business that they are currently considering.
 3. Here, “Have business startup experience (other business type)” indicates the total proportions of respondents who have business startup experience in a type of business other than what they are currently considering.

Reasons why aspiring renewed startups and people making renewed startup preparations failed in their previous businesses

Next, Fig. Column 2-1-4 (2) shows the reasons why aspiring renewed startups and people making renewed startup preparations failed in their previous businesses, according to gender and age group. If we begin by looking at men, regardless of age group, the highest proportion gave "Cash-flow or funding procurement difficulties" as their reason. Other reasons given by high proportions of respondents were "Difficulty securing and training personnel" and "Difficulty acquiring the necessary equipment" in the 34 or younger age group. In the 35–59 and 60 or older age groups, high-scoring responses were "Earnings were too low", "Difficulty finding new customers and developing markets" and "Deteriorating performance". If we now look at the results among women, the highest proportions in the 34 or younger age group gave "Cash-flow or funding procurement difficulties" followed by "Difficulty finding new customers and developing markets" and then "Took too much time and physical effort" as their reasons. However, women in the 35–59 and 60 or older age groups picked "Earnings were too low" first, followed by "Family problems (marriage, birth, nursing care, etc.)" and then "Cash-flow or funding procurement difficulties". This shows that for men, difficulty with their cash-flow situation or with procuring funding was the single most significant reason. The fact that a high proportion of men aged 34 or younger gave difficulty securing staff or equipment as their reason suggests that they gave up their businesses because they could not secure management resources such as personnel or equipment as their business grew in size. This shows us that the reasons men gave up their businesses tend to diverge according to their age. Conversely, if we look at women, a key reason for giving up the business was not so much difficulty with cash-flow or funding procurement, but the fact that the earnings from the business were too low. The data also indicates that more women than men gave up their businesses because of changes in their home situations, such as marriage, divorce, birth, childcare and nursing care, and because their businesses imposed too great a burden in terms of time and physical effort.

Fig. Column 2-1-4 (2) Reasons why aspiring renewed startups and people making renewed startup preparations failed in their previous businesses

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=71)	Cash-flow or funding procurement difficulties (53.3%)	Difficulty securing and training personnel (28.9%)	Difficulty acquiring the necessary equipment (28.9%)	Earnings were too low (24.4%)	Lack the management expertise (24.4%)
	35–59 (n=103)	Cash-flow or funding procurement difficulties (49.5%)	Earnings were too low (36.9%)	Difficulty finding new customers and developing markets (27.2%)	Deteriorating performance (26.2%)	Difficulty securing and training personnel (18.4%)
	60 or older (n=42)	Cash-flow or funding procurement difficulties (28.6%)	Earnings were too low (23.8%)	Deteriorating performance (23.8%)	Difficulty finding new customers and developing markets (19.0%)	Took too much time and physical effort (14.3%)
Women	34 or younger (n=26)	Cash-flow or funding procurement difficulties (42.3%)	Difficulty finding new customers and developing markets (23.1%)	Took too much time and physical effort (19.2%)	Difficulty securing and training personnel (15.4%)	Deteriorating performance (15.4%)
	35–59 (n=63)	Earnings were too low (39.7%)	Family problems (marriage, birth, nursing care, etc.) (33.3%)	Cash-flow or funding procurement difficulties (22.2%)	Took too much time and physical effort (20.6%)	Difficulty finding new customers and developing markets (15.9%)
	60 or older (n=42)	Earnings were too low (33.3%)	Cash-flow or funding procurement difficulties (33.3%)	Family problems (marriage, birth, nursing care, etc.) (26.2%)	Deteriorating performance (21.4%)	Lack the management expertise (21.4%)

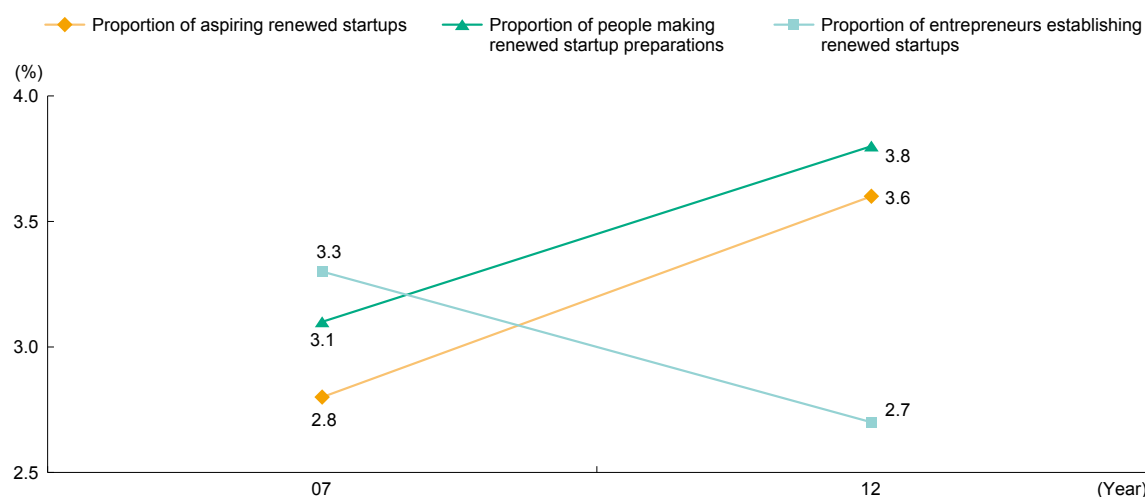
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. The table shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

People responsible for renewed startups

Fig. Column 2-1-4 (3) uses the MIC “Employment Status Survey” to show the respective figures for aspiring renewed startups as a proportion of all entrepreneurial hopefuls, people making renewed startup preparations as a proportion of all people making startup preparations, and entrepreneurs who established renewed startups as a proportion of all entrepreneurs. The figure shows that in 2012, 3.6% of all entrepreneurial hopefuls and 3.8% of all people making startup preparations were thinking of establishing a renewed startup. It also shows that 2.7% of all entrepreneurs actually established renewed startups. If we look at the changes from 2007 to 2012, aspiring renewed startups and people making renewed startup preparations have both increased as a proportion of entrepreneurial hopefuls and people making startup preparations respectively, but entrepreneurs establishing renewed startups have fallen as a proportion of all entrepreneurs. So, whereas the proportions of aspiring renewed startups and people making renewed startup preparations have risen over the last five years, the proportion of entrepreneurs who have actually established renewed startups has fallen over the same period. This leads us to conclude that, despite increased attention on renewed startups in recent years and a rise in the proportions of entrepreneurs considering renewed startups, there are many people who are failing to carry their startups through to completion.

Fig. Column 2-1-4 (3) People responsible for renewed startups



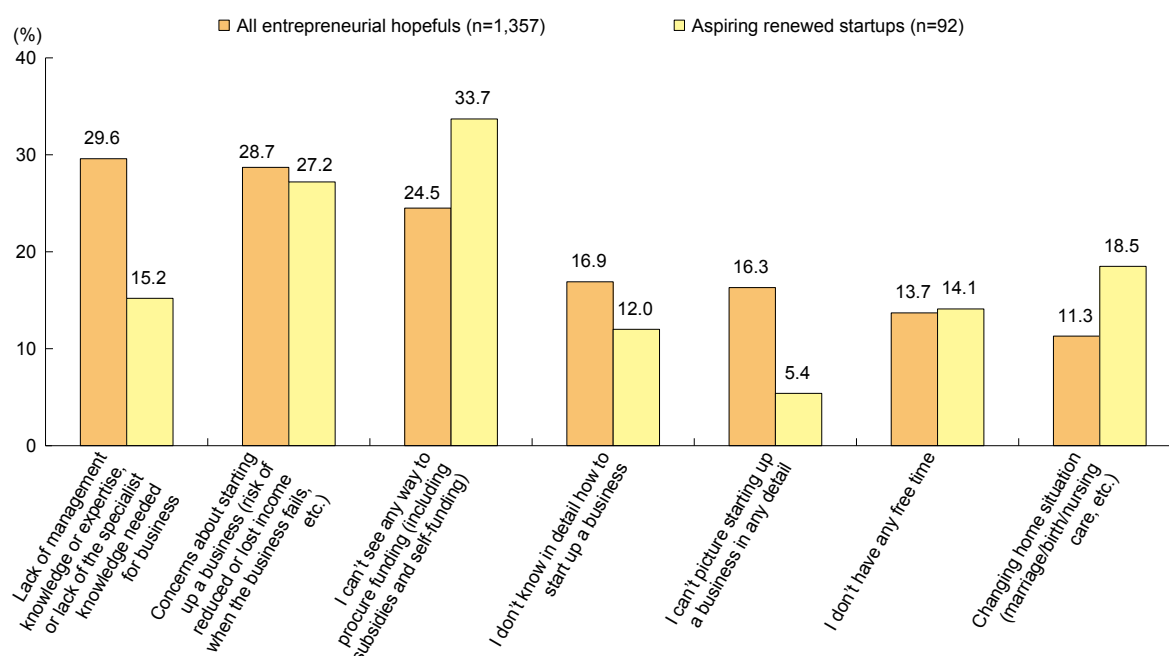
Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. Here, the “proportion of aspiring renewed startups” refers to the totals, as a proportion of all entrepreneurial hopefuls, for the respondents who selected “officers of a company, etc. or self-employed persons” as their position in their previous workplace, those who quit their jobs due to “Corporate bankruptcy or branch closure” or “Business slowdown and concerns about the future”, those people engaged in work who wanted to change jobs and responded “Want to start my own business” or unemployed persons who responded “Want to start my own business”.
 2. Here, “proportion of people making renewed startup preparations” refers to the total for aspiring renewed startups who responded “Making startup preparations” as a proportion of the people making startup preparations.
 3. Here, “proportion of entrepreneurs establishing renewed startups” refers to the totals, as a proportion of all entrepreneurs (people who changed their jobs or began new jobs in the last year and who are currently officers of a company, etc. or self-employed persons), for respondents who were “officers of a company, etc. or self-employed persons” in their previous workplaces and who quit their positions due to “Corporate bankruptcy or branch closure” or “Business slowdown and concerns about the future” and who changed their jobs or began new jobs in the last year and are currently officers of a company, etc. or self-employed persons.
 4. Here, entrepreneurial hopefuls, people making startup preparations and entrepreneurs do not include people who have engaged in or are preparing or hoping to start up secondary or subsidiary businesses.

Reasons why aspiring renewed startups have not started preparations for business startup

Now, we turn our attention to the issues face by aspiring renewed startups and people making renewed startup preparations as they try to restart their businesses. Fig. Column 2-1-4 (4) shows the reasons why aspiring renewed startups have not started preparations for business startup. The figure shows that a higher proportion of aspiring renewed startups selected "I can't see any way to procure funding (including subsidies and self-funding)" and "Changing home situation (marriage/birth/nursing care, etc.)" than was the case for entrepreneurial hopefuls generally. However, because they had previous experience with business startups, the proportions who selected "Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business" and "I can't picture starting up a business in any detail" were lower than among other entrepreneurial hopefuls. This suggests that aspiring renewed startups have the knowledge and expertise they need and have a clear picture of their business startup, but are not actually making preparations for their startups because they have no prospects of procuring funding due to the lingering effects of liabilities and other issues from their past businesses.

Fig. Column 2-1-4 (4) Reasons why aspiring renewed startups have not started preparations for business startup



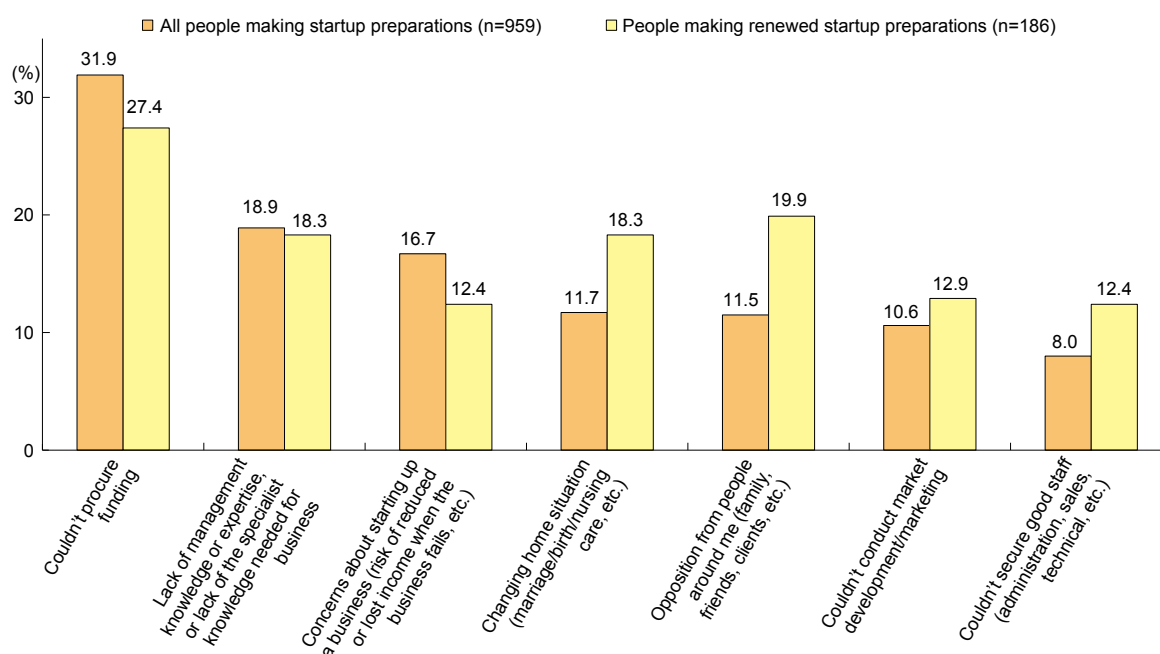
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from aspiring renewed startups.
 2. Totals for the proportions exclude people who responded "None in particular".
 3. The chart lists only the seven items with the highest proportion of responses.
 4. Total does not always equal 100% as multiple responses were possible.

Reasons why people making renewed startup preparations have not started up businesses

Next, we look specifically at people making renewed startup preparations and compare them with people making startup preparations generally to identify the reasons why they are unable to start up their businesses (Fig. Column 2-1-4 (5)). The figure shows that the highest proportion of people making renewed startup preparations gave "Couldn't procure funding" as their reason, followed by "Opposition from people around me (family, friends, clients, etc.)". If we also compare them with people making startup preparations generally, a lower proportion of people making renewed startup preparations selected "Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)", but a higher proportion cited reasons such as "Opposition from people around me (family, friends, clients, etc.)", "Changing home situation (marriage/birth/nursing care, etc.)" and "Couldn't secure good staff (administration, sales, technical, etc.)". This suggests that people making renewed startup preparations have relatively fewer concerns about starting up a business due to their previous experience, but still fail to actually start up their businesses because they cannot procure funding, face opposition from people around them, particularly family and friends, or cannot find high-quality staff.

Fig. Column 2-1-4 (5) Reasons why people making renewed startup preparations have not started up businesses



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from people making renewed startup preparations.
 2. Totals for the proportions exclude people who responded "None in particular".
 3. The chart lists only the seven items with the highest proportion of responses.
 4. Total does not always equal 100% as multiple responses were possible.

Funding for renewed startups (lending-support schemes for renewed startups)

Entrepreneurs with previous experience in business and a history of business failure are given the financing they need to renew their startups by the Japan Finance Corporation (JFC) (Fig. Column 2-1-4 (6)).

Fig. Column 2-1-4 (6) Overview of funding for renewed startups (lending-support schemes for renewed startups)

Eligible borrowers	<p>People who are starting up a new business or who started up a business in the last seven years and meet all the following criteria:</p> <ol style="list-style-type: none"> 1) Are individuals with a record of failure in business or companies run by managers with a record of failure in business 2) Are organized such that losses from business failures are unlikely to impact on new businesses 3) Had businesses that failed for reasons/circumstances that were unavoidable
Loan uses	Capital expenditure or working capital required to start up a new business or for a business started up previously
Maximum amounts loaned	<p>SME Unit: ¥720 million (including ¥250 million for working capital)</p> <p>Micro Business and Individual Unit: ¥72 million (including ¥48 million for working capital)</p>
Loan interest rate	<ul style="list-style-type: none"> • Working capital and land acquisition funding: Standard and special interest rates • Working capital and capital expenditure by women or people aged less than 30 or aged 55 or older (excluding land acquisition funding): Special interest rate • Working capital and capital expenditure for people demonstrating innovation in technology, expertise, etc.* (excluding land acquisition funding): Special interest rate <p>* Note: Set requirements must be fulfilled</p>
Loan term	<p>Capital expenditure: Up to 20 years <deferred up to 2 years></p> <p>Working capital: Up to 7 years <deferred up to 2 years></p>
Applicable financial institutions	<p>Japan Finance Corporation (SME Unit and Micro Business and Individual Unit)</p> <p>Okinawa Development Finance Corporation</p>

Case 2-1-4 Progresst, K. K.

Making use of past business experience and working experience to start a new company again

Progresst, K.K. (employees: 3: capital: ¥12 million), located in Osaka City, Osaka Prefecture, is a company that develops and operates interpreting applications for non-Japanese speakers.

The company's main application-based service for non-Japanese speakers is a simultaneous interpretation service that uses tablet or smartphone video calling software. In stores using the service, mainly restaurants and retail stores, a staff member boots up the app when necessary, and connects to an interpreter by smartphone or other device; this enables the staff member and a foreign customer to engage in real-time communication via an interpreter. The current increase in the number of foreign visitors to Japan is spurring an increase in the number of companies establishing contracts with Progresst, and its business is moving onto a firm footing.

The idea behind Progresst's service is based on the business experience of the company's President and Representative Director, Hironobu Murai. When he graduated from university in 1988, Mr. Murai established a sole-proprietor business in Hokkaido where he was raised that provided services including attracting companies to commercial facilities and formulating plans for billboards and signs. However, in the wake of the collapse of the bubble economy, jobs dried up. Mr. Murai therefore quit his business and became a company employee. Through work for companies including a temp agency, one of the leading national call center companies, and a company that dealt with materials for university entrance examinations throughout the country, he acquired the knowledge, experience and knowhow necessary for business. During this period, the idea for his present business occurred to Mr. Murai. Not weighed down by his previous experience of giving up his business in Hokkaido and encouraged in starting a business by people around him, Mr. Murai had a strong belief that the current tourist boom made an application-based interpreting service necessary for Japan, and that using his previous business experience he could make it a success. In 2013, he founded his company. In starting a new business again, despite his confidence that it would do well, Mr. Murai experienced considerable difficulty in procuring funds to start the business and to guide it onto a firm footing. He applied for a loan from the Japan Finance Corporation, and following a number of reviews, the JFC saw the future potential of the company's business model, and Mr. Murai managed to obtain the necessary funds.

At present the company retains the interpreters necessary for the provision of its service in-house, but in future Mr. Murai would like to develop a service in which people who need interpreting services search for users who speak the necessary language on a network, and users able to provide interpreting respond to the request. In addition, viewing the current boom in tourism as a temporary phenomenon, Mr. Murai also plans to develop services that are compatible with areas other than the tourist industry.



Overview of Progresst's services

Section 3 Conditions and issues faced following the establishment phase

In this section, we use data from the “Survey of Business Startup/Establishment Conditions¹⁶⁾” to first quantify the three growth types discussed earlier (high growth, stable growth and sustainable growth) by looking at enterprises after startup and taking the number of years since startup, the number of employees and the sales growth rates, and examine the present state of each type of enterprise. Then, we classify the growth of enterprises

after startup into three stages: the establishment stage, the initial growth stage and the stability and expansion stage, and with a focus on sustainable growth enterprises in this paper, we analyze the problems that they face in each stage of their growth and the efforts they make¹⁷⁾ in subsection 2 and later, to consider the types of support policies they need.

1. Enterprise conditions by growth type

(1) Classification of growth types after startup

In the analysis in this section, established enterprises are classified into three growth types: “high growth”, “stable growth” and “sustainable growth”. We began by looking at approx. 3,000 enterprises who responded to the questionnaire survey and had been established five or more years ago but no more than 10 years ago. According to the current sizes of the surveyed enterprises, there were classified as either micro businesses or medium enterprises as defined in the Small and Medium Enterprises Basic Law. The results were used to compare the sizes of enterprises at startup with their current sizes and enterprises that had not changed in size or had grown smaller were classified as “sustainable growth” enterprises, indicating that they were micro businesses that had remained micro businesses, or medium enterprises that had either remained medium enterprises or become micro businesses. Next,

enterprises that had grown in size since startup were classified as “stable growth” enterprises, meaning that they were micro businesses that had become medium enterprises. Finally, we focused on enterprises that were listed on emerging markets (TSE Mothers, Centrex, FSE Q-board, JASDAQ or SSE Ambitious). We calculated the rates of sales growth for the listed enterprises from startup to 5–10 years since startup and compared them with the sales growth rates between startup and the present for other enterprises that responded to the survey. Based on this, we took enterprises that were listed on emerging markets and increased their sales growth rates, regardless of any changes in enterprise size, to be “high growth” enterprises¹⁸⁾. Fig. 2-1-37 shows a schematic of the three growth types. Below, we summarize the conditions for enterprises of the three growth types (high growth, stable growth and sustainable growth)¹⁹⁾.

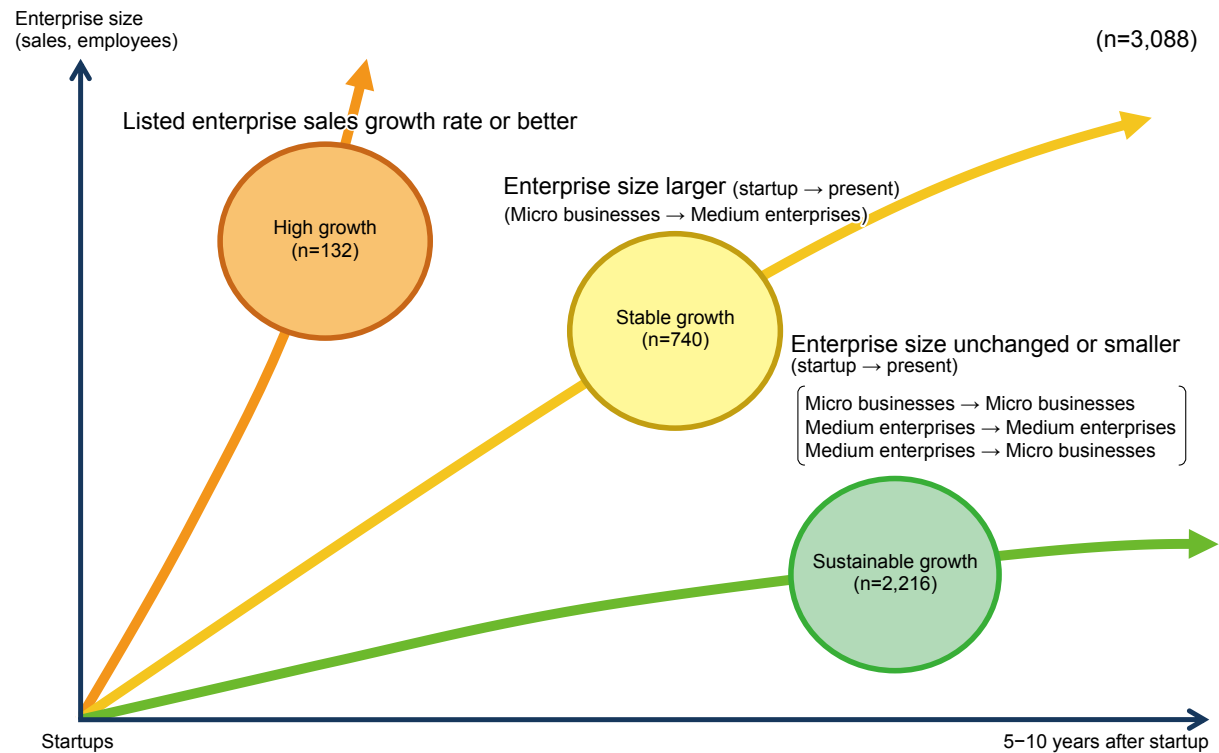
16) A survey conducted in November 2016 by Mitsubishi UFJ Research and Consulting Co., Ltd. on behalf of the SME Agency. The questionnaire was delivered by post and surveyed 30,000 companies and sole proprietorships (including 1,000 specified non-profit organizations) founded between January 2006 and January 2011. The return rate for the survey was 10.9%.

17) For more detailed information on the initial growth stage, refer to Section 3, subsection 2 below.

18) For data on listed enterprises, refer to the *FY2011 Survey of Capitalization Strategies in Venture Enterprises* (Teikoku Databank, Ltd., February 2012) on behalf of the METI Outsourced Surveys Unit (http://www.meti.go.jp/meti_lib/report/2012fy/E002011.pdf).

19) While the growth types are quantitatively classified in this section, some survey response options involve enterprises that cannot be classified into any of the growth types. As a result, the total sample count for the three growth types differs from the overall total sample count.

Fig. 2-1-37 Schematic of the growth types following startup

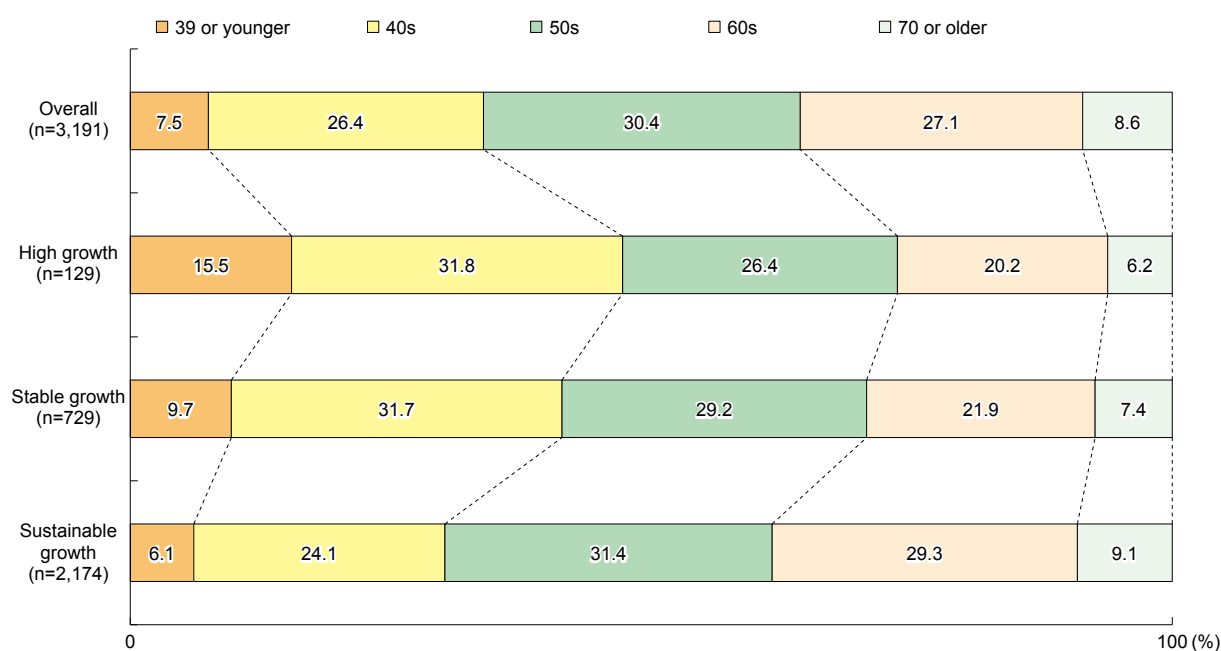


(2) Entrepreneur age distribution by growth type

Firstly, Fig. 2-1-38 shows the age distribution of entrepreneurs according to growth type. The figure shows that around half of all entrepreneurs in high growth enterprises are aged 49 or younger. In contrast, sustainable growth enterprises have higher proportions of

entrepreneurs in their 50s, 60s and 70 or older compared to other growth types, such that roughly 70% of all entrepreneurs in sustainable growth enterprises are aged 50 or older. This shows that entrepreneurs in sustainable growth enterprises are relatively older than those in other growth types.

Fig. 2-1-38 Entrepreneur age distribution by growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Where multiple managers are jointly running a business, the age calculated is that of the primary manager.

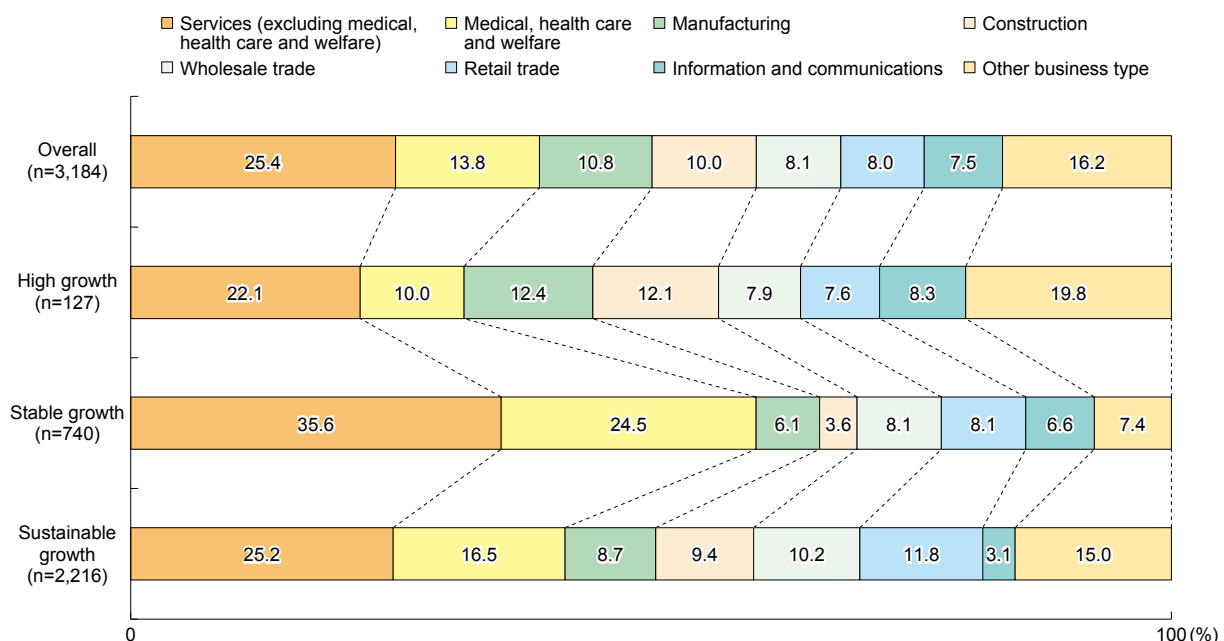
(3) Distribution of main business types by growth type

Next, we look at the major industries in which established enterprises are operating according to growth type (Fig. 2-1-39).

The figure shows that, overall, a high proportion of the enterprises are in “Services (excluding medical, health care and welfare)” and “Medical, health care and welfare”. When looked at by growth type, there are higher proportions of high growth enterprises in “Information and communications,” “Manufacturing” and “Construction” than other growth types. We also see

that sustainable growth enterprises, like stable growth enterprises, make up higher proportions of enterprises in “Services (excluding medical, health care and welfare)” and “Medical, health care and welfare” compared to high growth enterprises, and are also present in higher proportions in “Wholesale trade” and “Retail trade” than other growth types. This indicates that sustainable growth enterprises are relatively well represented in region or community-oriented industries such as “Retail trade”, “Medical, health care and welfare”, and “Services”.

Fig. 2-1-39 Distribution of main business types by growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

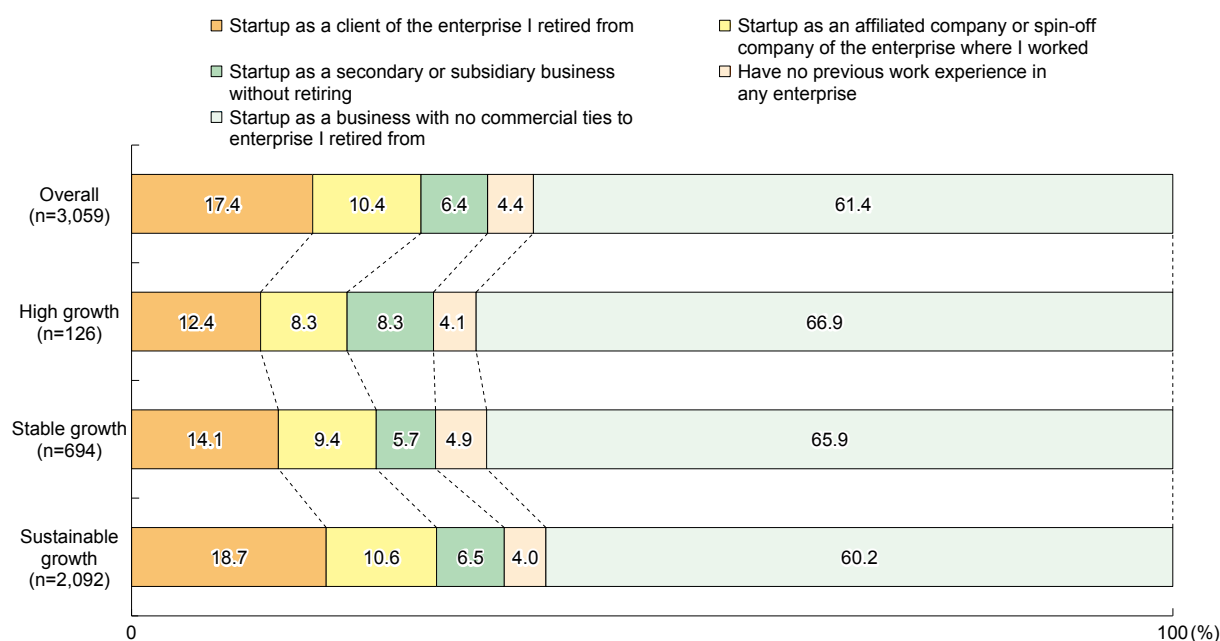
Note: Figures are calculated for the major industries (those present in the highest proportions that have the highest overall sales in the last business period).

(4) Startup types and employment experience before startup according to growth type

Next, we look at how businesses were started up. Fig. 2-1-40 shows enterprise types and entrepreneurs' experience of employment prior to business startup according to growth type. The figure shows that across all growth types, roughly 60% of entrepreneurs responded "Startup as a business with no commercial ties to enterprise I retired from". If we look at the results by

growth type, the proportion of entrepreneurs in sustainable growth enterprises who responded "Startup as a client of the enterprise I retired from" or "Startup as an affiliated company or spin-off company of the enterprise where I worked" was higher than entrepreneurs in stable growth and high growth enterprises.

Fig. 2-1-40 Startup types and employment experience before startup according to growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

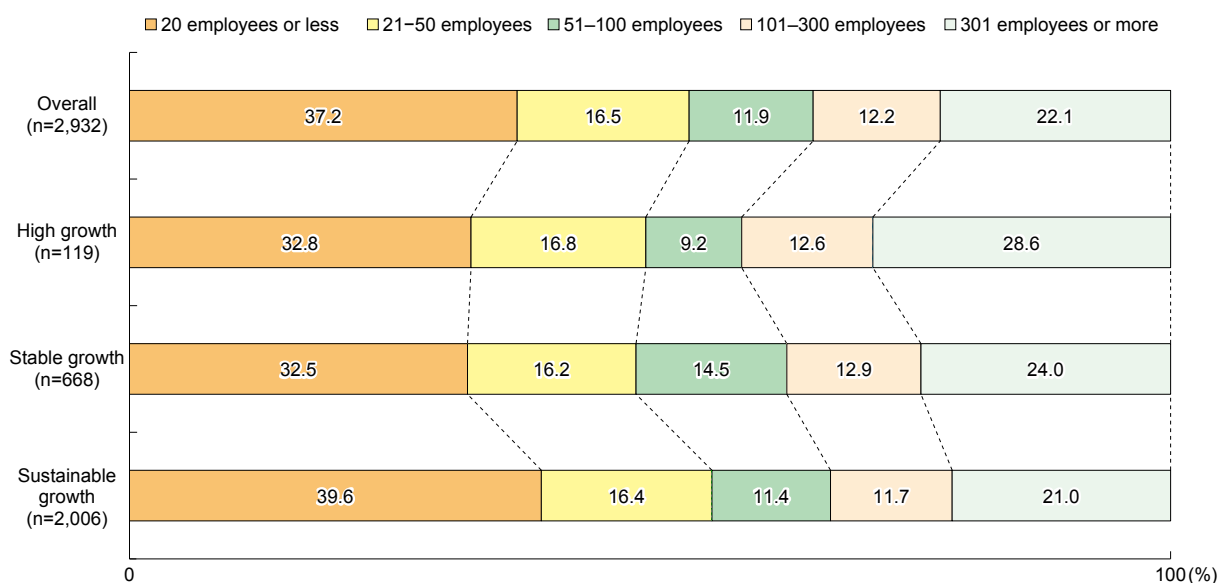
Note: Totals calculated for the proportions exclude people who responded "Other".

(5) Employed enterprise size before startup according to growth type

Here, we look at the places where entrepreneurs were employed before they started up their businesses. Fig. 2-1-41 shows the number of full-time workers and employees at the enterprises where entrepreneurs were employed before starting up their businesses, with the results ordered by growth type. This figure shows that a high proportion of entrepreneurs in high growth enterprises was employed

in relatively large enterprises that employed 301 or more staff, while the proportion of entrepreneurs in sustainable growth enterprises who worked in small-scale enterprises that employed 20 or fewer staff was higher than the proportions for other growth types. This suggests that entrepreneurs in sustainable growth enterprises tend strongly to start their own business after being employed at a relatively small enterprise.

Fig. 2-1-41 Number of full-time workers and employees at pre-startup workplaces according to growth type



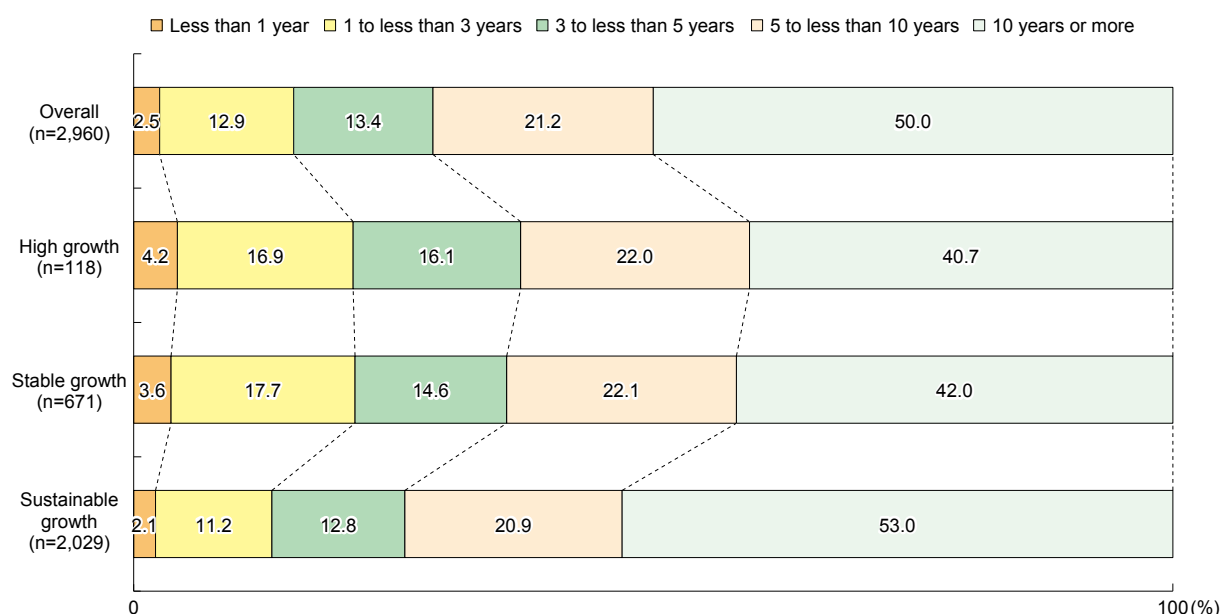
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Here, "full-time workers and employees" does not include managers, executives, unpaid family workers or dispatched workers or subcontractors, but does include part-time workers and side-job workers.
 2. Totals are calculated for people who were employed before starting up a business.
 3. Totals for people who left work to prepare for starting up a business and were unemployed before starting up a business show their previous employment status.

(6) Period of employment before startup according to growth type

Next, we look at the periods for which entrepreneurs were employed at their workplaces before they started up a business. The data shows that 50% of all the entrepreneurs replied "10 years or more", showing that the entrepreneur built up relatively extensive experience of employment before starting up their own businesses

(Fig. 2-1-42). Looking at the data by growth type, around 75% of all entrepreneurs at sustainable growth enterprises were employed for 5 years or more, and generally tended to be employed for a longer period of time before starting up a business, compared to entrepreneurs in high growth and stable growth enterprises.

Fig. 2-1-42 Period of employment before startup according to growth type

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Notes: 1. Totals are calculated for people who were employed before starting up a business.
2. Totals for people who left work to prepare for starting up a business and were unemployed before starting up a business show their previous employment status.

(7) Catalysts for interest in business startups by gender and age group

Below, we look at what it was that triggered entrepreneurs' interest in starting up their businesses. Fig. 2-1-43 shows the catalysts for interest in business startups according to gender and age group. If we begin by looking at men, those who answered "Influence of nearby entrepreneurs/managers" made up the highest proportion in the 49 or younger age group, with the next highest proportions choosing the "Couldn't do what I wanted to at work" response and then the "Concerned about future prospects or worsening treatment at work". In the 50–59 age group, the proportion who opted for "Concerned about future prospects or worsening treatment at work" was higher than in the 49 or younger cohort, but the proportion who chose "Influence of nearby entrepreneurs/managers" was smaller. Looking finally at the 60 or older age group, the highest proportion chose "Influence of nearby entrepreneurs/managers" followed by "Advised to by people around me (family, friends, clients, etc.)". By contrast, only a low proportion chose the "Couldn't do what I wanted to at work" response, which was a popular option among entrepreneurs aged 59 or younger. This shows that while men tended to be influenced by other

entrepreneurs and managers around them, those aged 49 or younger and in the 50–59 age group became drawn to starting up a business because they were frustrated at their workplaces. The data also shows that, as men become older, the recommendations and influence of people around them are increasingly important in stimulating interest in starting a business.

Looking next at women, the highest proportion of women aged 49 or younger opted for "Advised to by people around me (family, friends, clients, etc.)", followed by "Changing home situation (marriage/birth/nursing care, etc.)" and then "Influence of nearby entrepreneurs/managers". A relatively high proportion also chose "Found friends to start up the business with me", which did not arise in other age groups. This suggests that women aged 49 or younger, as well as experiencing marriages, births and other changes in their domestic arrangements, came into more contact with other entrepreneurs and managers active in their circles and also encountered more friends with the same interests, and these factors then stimulated their own interest in starting up a business.

Next, we see that among women aged 50–59, as with those 49 and younger, high proportions chose "Advised to by people around me (family, friends, clients, etc.)",

followed by “Changing home situation (marriage/birth/nursing care, etc.)”, while a high proportion also chose “Couldn’t do what I wanted to at work”. Looking finally at women aged 60 or older, the highest proportion chose “Couldn’t do what I wanted to at work”, while the proportion opting for “Changing home situation (marriage/birth/nursing care, etc.)” was smaller than in women aged 59 or less. There was also a relatively high proportion who selected “Acquiring the permits/qualifications to run the business”. We also observe that, across all the age groups, a higher proportion of women than men responded “Advised to by people around me (family, friends, clients, etc.)”.

This data shows that more women than men are spurred to take an interest in business startups by suggestions from people around them, particularly friends and family. It also shows that women in the younger age group have their interest in starting a business sparked due to the influence of other entrepreneurs and managers around them, by recommendations from others around them, and due to changes in their family situations. As women transition in to older age groups, the triggers for developing an interest in starting a business change to acquiring the permits and qualifications to run a business and the fact that, in their current workplaces, they cannot achieve what they want using those permits and qualifications.

Fig. 2-1-43 Catalysts for entrepreneurs’ interest in business startups by gender and age group

		1st	2nd	3rd	4th	5th
Men	49 or younger (n=961)	Influence of nearby entrepreneurs/managers (40.7%)	Couldn't do what I wanted to at work (29.2%)	Concerned about future prospects or worsening treatment at work (27.5%)	Advised to by people around me (family, friends, clients, etc.) (20.3%)	Had a commercially viable idea (16.6%)
	50–59 (n=809)	Concerned about future prospects or worsening treatment at work (35.7%)	Couldn't do what I wanted to at work (28.4%)	Influence of nearby entrepreneurs/managers (27.3%)	Advised to by people around me (family, friends, clients, etc.) (19.5%)	Had a commercially viable idea (16.9%)
	60 or older (n=949)	Influence of nearby entrepreneurs/managers (25.2%)	Advised to by people around me (family, friends, clients, etc.) (21.9%)	Concerned about future prospects or worsening treatment at work (21.7%)	Had a commercially viable idea (21.5%)	Couldn't do what I wanted to at work (19.9%)
Women	49 or younger (n=75)	Advised to by people around me (family, friends, clients, etc.) (33.3%)	Changing home situation (marriage/birth/nursing care, etc.) (25.3%)	Influence of nearby entrepreneurs/managers (22.7%)	Found friends to start up the business with me (21.3%)	Couldn't do what I wanted to at work (20.0%)
	50–59 (n=107)	Advised to by people around me (family, friends, clients, etc.) (37.4%)	Changing home situation (marriage/birth/nursing care, etc.) (29.0%)	Couldn't do what I wanted to at work (23.4%)	Influence of nearby entrepreneurs/managers (20.6%)	Acquiring the permits/qualifications to run the business (17.8%)
	60 or older (n=99)	Couldn't do what I wanted to at work (30.3%)	Advised to by people around me (family, friends, clients, etc.) (26.3%)	Acquiring the permits/qualifications to run the business (24.2%)	Changing home situation (marriage/birth/nursing care, etc.) (22.2%)	Had a commercially viable idea (21.2%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from entrepreneurs.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(8) Catalysts for interest in business startups by growth type

Next, Fig. 2-1-44 shows the catalysts for entrepreneurs' interest in business startups according to growth type. The figure shows that the highest proportion of entrepreneurs in high growth enterprises selected "Influence of nearby entrepreneurs/managers", followed by "Advised to by people around me (family, friends, clients, etc.)" and then "Had a commercially viable idea". Like the entrepreneurs in high growth enterprises, the highest proportion of entrepreneurs in stable growth enterprises opted for "Influence of nearby entrepreneurs/managers", which was followed by "Couldn't do what I wanted to at work".

Looking lastly at entrepreneurs in sustainable growth enterprises, the highest proportion chose "Concerned about future prospects or worsening treatment at work", after which came "Influence of nearby entrepreneurs/

managers". The proportion who chose the "Have to get a job (income)" response was also high compared with entrepreneurs in other growth types. Based on these results, it seems that entrepreneur in high growth enterprises, who generally tend to be strongly influenced by other entrepreneurs and managers around them, develop an interest in starting up a business in order to grow their own ideas as a business, whereas entrepreneurs in stable growth enterprises do so because they cannot achieve what they want to in their current workplaces. In both cases, the catalysts for the business startups are forward-looking. By contrast, entrepreneurs in enterprises with sustainable growth tend to develop an interest in starting up a business due to unavoidable factors such as needing to get a job or some unease over their employer's future prospects or how they are being treated at work.

Fig. 2-1-44 Catalysts for interest in business startups among entrepreneurs according to growth type

	1st	2nd	3rd	4th	5th
High growth (n=125)	Influence of nearby entrepreneurs/managers (37.6%)	Advised to by people around me (family, friends, clients, etc.) (24.8%)	Had a commercially viable idea (24.0%)	Concerned about future prospects or worsening treatment at work (23.2%)	Couldn't do what I wanted to at work (19.2%)
Stable growth (n=724)	Influence of nearby entrepreneurs/managers (34.3%)	Couldn't do what I wanted to at work (30.8%)	Concerned about future prospects or worsening treatment at work (24.3%)	Advised to by people around me (family, friends, clients, etc.) (21.0%)	Had a commercially viable idea (20.4%)
Sustainable growth (n=2,128)	Concerned about future prospects or worsening treatment at work (27.9%)	Influence of nearby entrepreneurs/managers (27.7%)	Couldn't do what I wanted to at work (24.5%)	Advised to by people around me (family, friends, clients, etc.) (22.3%)	Have to get a job (income) (17.4%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from entrepreneurs.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(9) Comparison of the triggers for interest in business startups in entrepreneurs as opposed to entrepreneurial hopefuls and people making startup preparations

So, what are the differences in the factors that trigger an interest in starting up a business for entrepreneurs who actually started a business, and those for entrepreneurial hopefuls and people making startup preparations who did not? Here, Fig. 2-1-45 compares the factors that triggered an interest in starting up a business in entrepreneurs with the corresponding factors in entrepreneurial hopefuls and people making startup preparations. This comparison shows that “Influence of nearby entrepreneurs/managers” was the choice of a high proportion of respondents in all three groups. It also shows that the proportions

of entrepreneurs who chose “Concerned about future prospects or worsening treatment at work”, “Advised to by people around me (family, friends, clients, etc.)” or “Had a commercially viable idea” were especially high compared with entrepreneurial hopefuls and people making startup preparations. But the proportions of entrepreneurial hopefuls and people making startup preparations choosing “Couldn’t do what I wanted to at work”, “Have to get a job (income)” or “Changing home situation (marriage/birth/nursing care, etc.)” were higher than for entrepreneurs. These findings also show that encouragement to start up a business from those around you is an important catalyst for converting an interest in business startups into an actual established business.

Fig. 2-1-45 Comparison entrepreneurs, entrepreneurial hopefuls and people making startup preparations with respect to the triggers for interest in business startups

	1st	2nd	3rd	4th	5th
Entrepreneurs (n=3,128)	Influence of nearby entrepreneurs/managers (30.1%)	Concerned about future prospects or worsening treatment at work (26.5%)	Couldn't do what I wanted to at work (25.5%)	Advised to by people around me (family, friends, clients, etc.) (21.8%)	Had a commercially viable idea (18.3%)
Entrepreneurial hopefuls/people making startup preparations (n=2,681)	Influence of nearby entrepreneurs/managers (30.9%)	Couldn't do what I wanted to at work (20.0%)	Have to get a job (income) (19.7%)	Concerned about future prospects or worsening treatment at work (18.4%)	Changing home situation (marriage/birth/nursing care, etc.) (17.5%)

Source: Entrepreneurs: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Entrepreneurial hopefuls/people making startup preparations: *Survey of Awareness and Experience of Business Establishment and Startup* conducted on behalf of the SME Agency (Mitsubishi UFJ Research and Consulting Co., Ltd, December 2016)

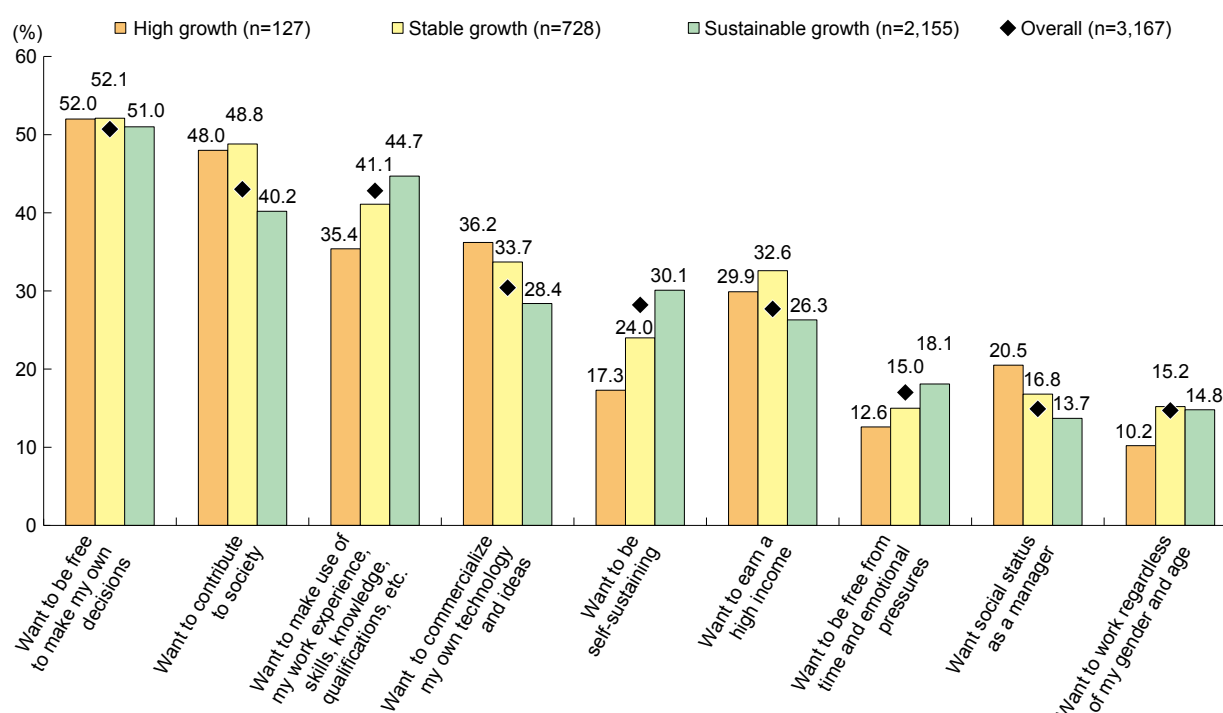
Notes: 1. The table shows the five items with the highest proportion of responses for each category.
2. Total does not always equal 100% as multiple responses were possible.

(10) Business startup goals by growth type

Here, we look at the goals entrepreneurs have when starting up a business, as shown in Fig. 2-1-46. The results show that, as a general trend, “Want to be free to make my own decisions” attracted the most responses, followed by “Want to contribute to society” and then “Want to make use of my work experience, skills, knowledge, qualifications, etc.”. Looking at the results by growth type, the responses that garnered higher proportions for entrepreneurs in high growth enterprises compared with the other growth types were “Want to commercialize

my own technology and ideas” and “Want social status as a manager”. The corresponding responses for entrepreneurs in stable growth enterprises were “Want to earn a high income” and “Want to contribute to society”, while those responses for entrepreneurs in sustainable growth enterprises were “Want to make use of my work experience, skills, knowledge, qualifications, etc.”, “Want to be self-sustaining” and “Want to be free from time and emotional pressures”. From this, it is clear that the purpose for which a business is started up shapes its subsequent path to growth.

Fig. 2-1-46 Business startup goals by growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

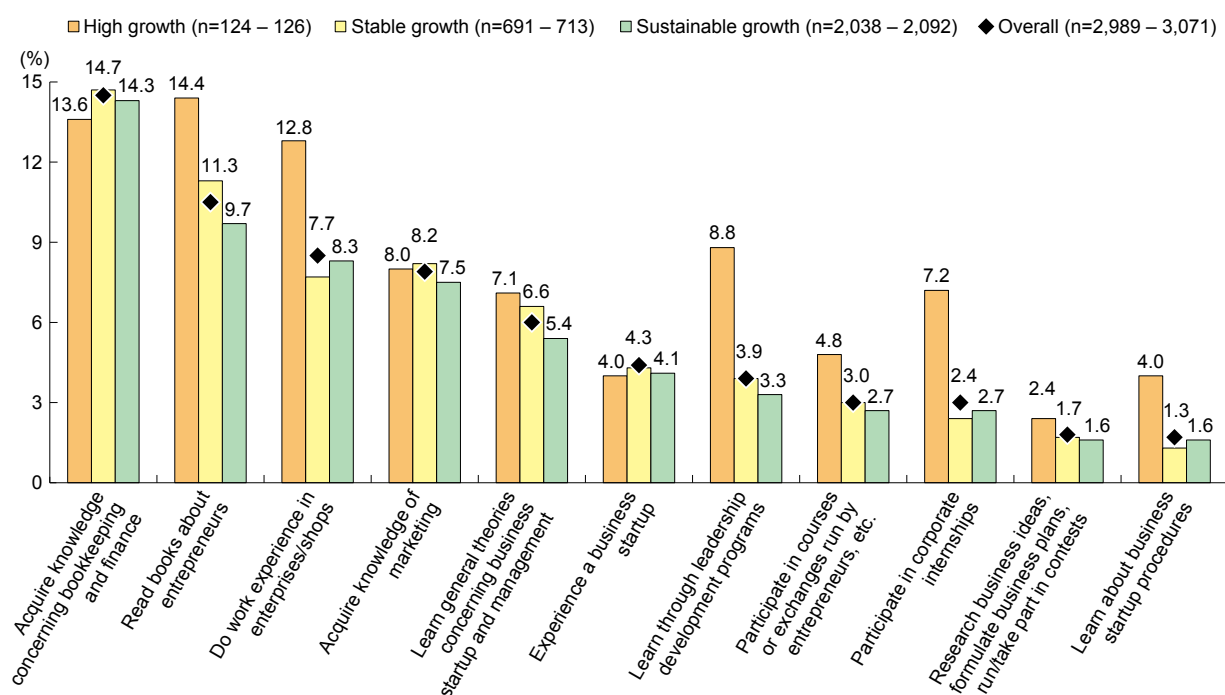
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. No “Other” or “No particular goal” category is presented here.

(11) Details of entrepreneur education received at school according to growth type

Next, we look at the content of the entrepreneur education courses taken by entrepreneurs while at school. Fig. 2-1-17 in the previous section looked at the proportions of entrepreneurial hopefuls and people making startup preparations who had received entrepreneur education. Those findings showed that entrepreneurial hopefuls and people making startup preparations who wished to start up a business, once they were adults, probably received various forms of entrepreneur education as part of their preparations for business startup. So, to tease out the correlations between the entrepreneur education they received and their interest in starting up a business or actually establishing a business due to that entrepreneur education, we look here at the proportions of entrepreneurs who received entrepreneur education while at school (primary, junior high or high school, technical college or school, junior college, university or graduate school)

(Fig. 2-1-47). The results show that, across all the queries, entrepreneurs in high growth enterprises generally had higher rates of entrepreneur education while at school than those in the other growth types. The data also shows that the “Read books about entrepreneurs”, “Do work experience in enterprises/shops”, “Learn through leadership development programs” and “Participate in corporate internships” responses in particular were selected by more entrepreneurs in high growth enterprises than in other growth types. This suggests that acquiring knowledge about finance, bookkeeping and marketing and learning about management theory through classes and lectures at school, along with learning-type education such as reading books by entrepreneur, is effective in getting a business established. However, it also shows that this probably needs to be supplemented by experience-based programs such as workplace experience, which is also effective in establishing business startups.

Fig. 2-1-47 Details of entrepreneur education received at school according to growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

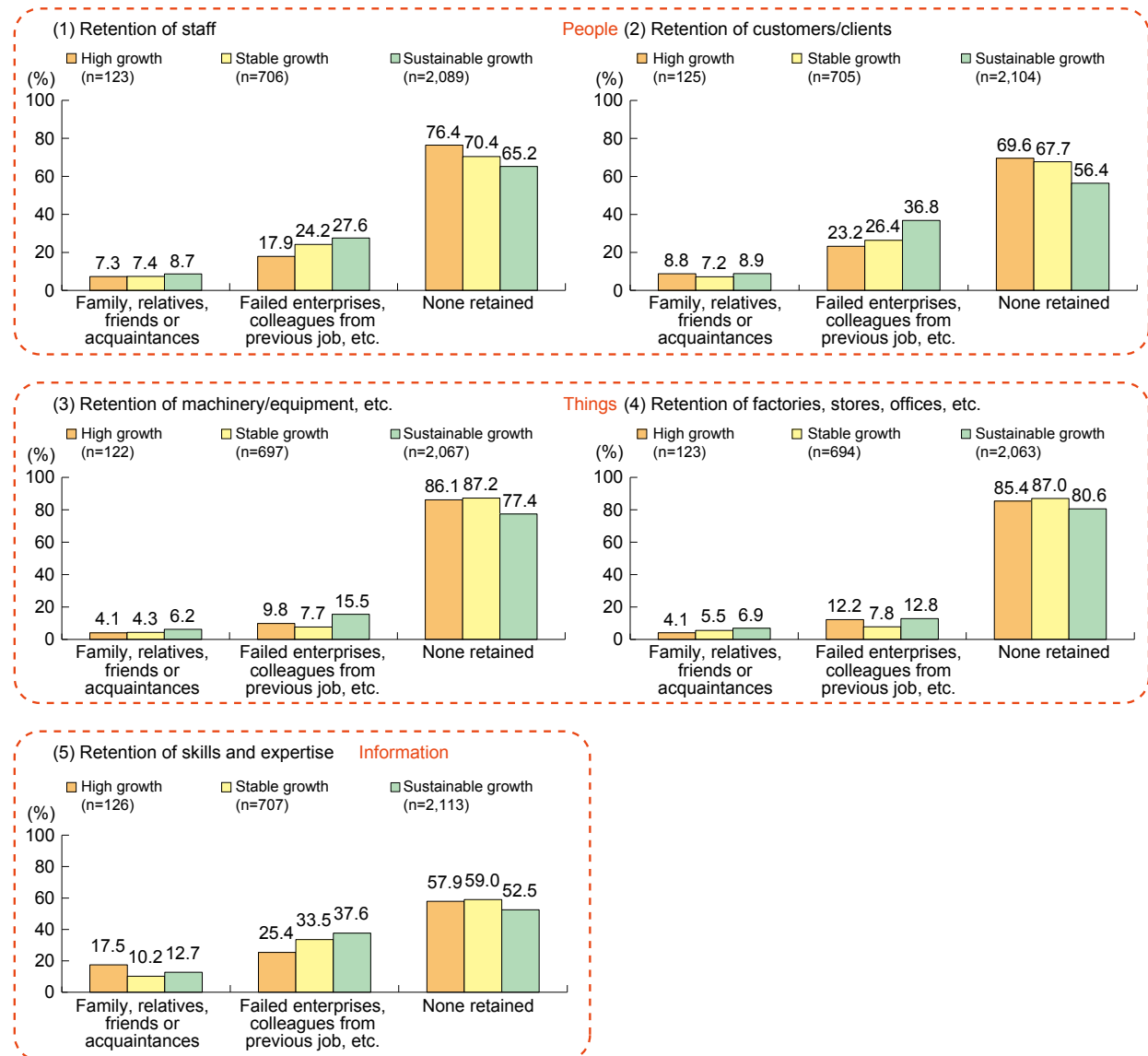
- Notes:
1. Totals are calculated for respondents who were educated at any school (primary, junior high or high school, technical college or school, junior college, university or graduate school).
 2. Total does not always equal 100% as multiple responses were possible.

(12) Management resources retained during business startup

Fig. 2-1-48 examines the management resources need to run a business, such as people, things, funds and information, and looks at whether such resources were retained from family, friends, clients at previous workplaces, colleagues or failed enterprises, according to growth type. Of those resources, “funds” will be subjected to a detailed analysis in subsection 3 onwards below, but the results obtained here show firstly that “people”, namely employees, customers and clients, are more often retained from failed enterprises and people involved in previous workplaces than from family, relatives, friends or acquaintances. The data also shows that sustainable growth enterprises retain higher proportions of resources than high growth and stable growth enterprises. Looking next at “things”, such as machinery, equipment, factories, stores and offices, we see that a lower proportion than

“people” is retained by all growth types, and that there are some enterprises, primarily sustainable growth enterprises, that retain such resources from failed enterprises and people involved in previous workplaces. Looking finally at “information”, specifically skills and expertise, these resources are primarily retained by sustainable growth enterprises from failed enterprises and people involved in previous workplaces. The data also shows that the proportion who responded “None retained” is the lowest for these resources across all growth type when compared with the “people” and “things” management resources.

From the above, we can see that established enterprises, particularly sustainable growth enterprises, tend to retain management resources when they are started up, primarily “information” in the form of the skills and expertise needed for the business, and “people” in the form of employees and customers.

Fig. 2-1-48 Management resources retained during business startup

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Column 2-1-5 Conditions for social business startups

In Japan, population decline and aging coupled with the changing employment structure are giving rise to a range of social issues, including childcare, nursing care and depopulation, particularly in regional Japan. Given this environment, there are increasing numbers of businesses (hereinafter referred to as “social businesses”) whose aim it is to resolve the issues that our regions and communities face. If social and regional issues, particularly those relating to support for childcare and nursing care, are addressed by social businesses, this could well provide an environment in which younger people and women in particular would find it increasingly easy to start up a business.

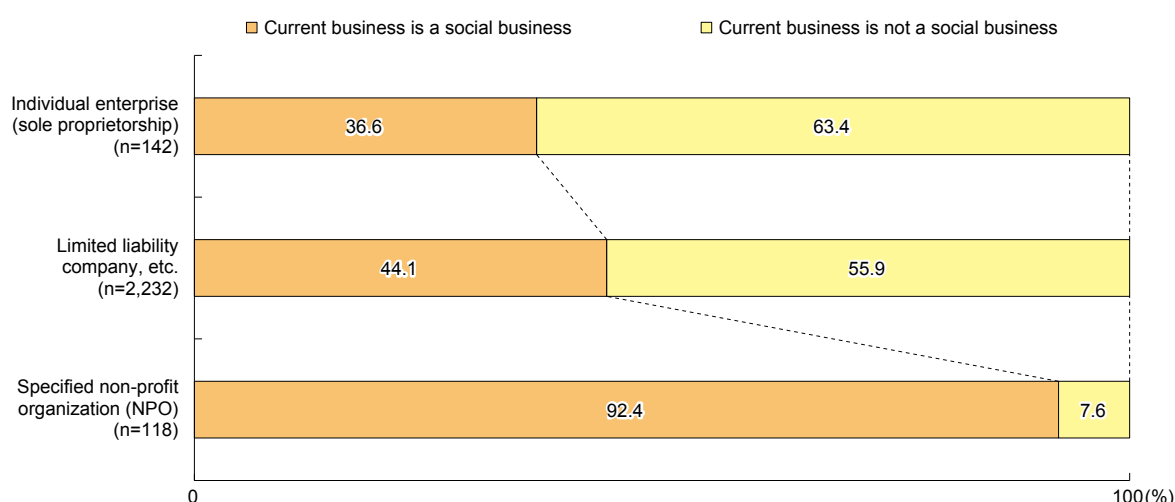
Accordingly, it is important for the number of future enterprises that operate as social businesses to grow.

In this column, we will summarize the conditions for entrepreneurs whose principal businesses operate as social businesses (hereinafter referred to as “social business entrepreneurs”) and the issues they must overcome to successfully establish a business.

Proportions of social business entrepreneurs

We begin by looking at social business entrepreneurs as a proportion of all entrepreneurs according to enterprise type (Fig. Column 2-1-5 (1)). The figure shows that social business entrepreneurs make up 36.6% of individual enterprises (sole proprietorships) and 44.1% of limited liability companies respectively, whereas they comprise 92.4% of all specified non-profit organizations. This highlights the fact that social business entrepreneurs make up an especially high proportion of specified non-profit organizations when compared with individual enterprises (sole proprietorships) and limited liability companies.

Fig. Column 2-1-5 (1) Proportions of social business entrepreneurs by current enterprise types

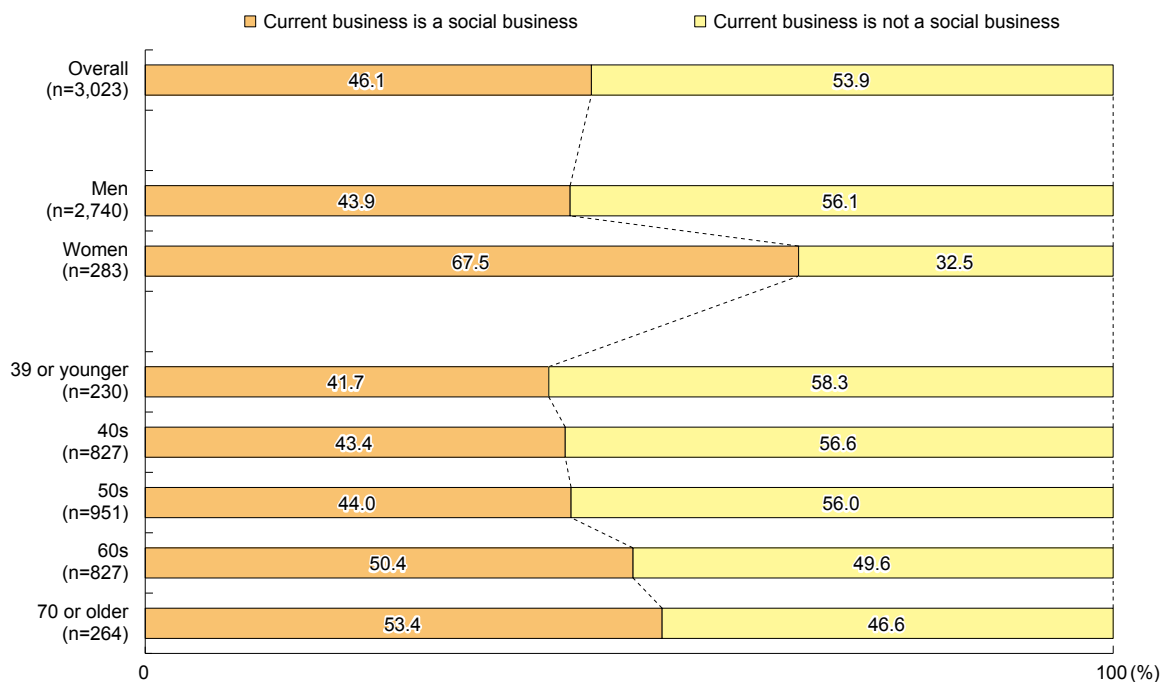


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. In this column, a “social business” is a business established with the aim of addressing social and/or regional issues.
 2. In this column, people who replied to the question “Is your current business a social business?” with the “Yes” or “Mostly” response are counted in the “Current business is a social business” category, and people who replied “Not really” or “Not at all” are counted in the “Current business is not a social business” category.
 3. In this column, “social business entrepreneur” refers to an entrepreneur whose principal business is a social business.
 4. Here, “limited liability company” also includes general partnership and limited partnership companies.

Next, Fig. Column 2-1-5 (2) shows the proportions of social business entrepreneurs according to gender and age group. The figure indicates that around half of all social business entrepreneurs recognize that the businesses they run are social businesses. Looking at the results by gender, women make up a higher proportion of social business entrepreneurs than men. By age group, we can see that as entrepreneurs grow older, the proportion of social business entrepreneurs gradually increases.

Fig. Column 2-1-5 (2) Proportions of social business entrepreneurs by gender and age group



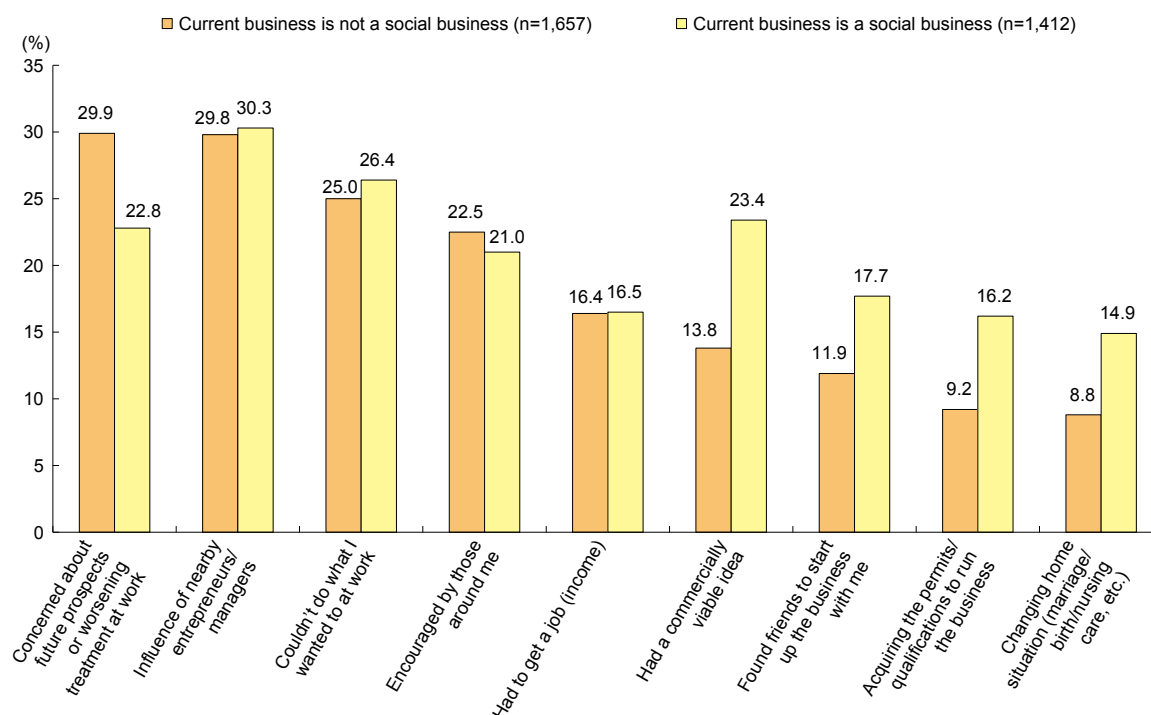
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Triggers for interest in business startups among social business entrepreneurs

Fig. Column 2-1-5 (3) looks at the factors that triggered an interest in starting up a business in social business entrepreneurs and compares social business entrepreneurs with entrepreneurs whose businesses are not primarily social (hereinafter referred to as “non-social business entrepreneurs”). The figure shows that the highest proportion of non-social business entrepreneurs chose “Concerned about future prospects or worsening treatment at work”, while the highest proportion of social business entrepreneurs chose “Influence of nearby entrepreneurs/managers” followed by “Couldn’t do what I wanted to at work”, showing that the factors triggering an interest in starting up a business are different for social business entrepreneurs and non-social business entrepreneurs.

Social business entrepreneurs also had notably higher response rates than non-social business entrepreneurs for the “Had a commercially viable idea”, “Found friends to start up the business with me” and “Acquiring the permits/qualifications to run the business” factors. These results suggest that social business entrepreneurs are most likely to develop an interest in starting up a business due to positive factors such as the influence of other entrepreneurs and managers around them, their inability to achieve their goals in their current job, an idea of their own that they want to commercialize, friends they have found to start up the business with, or having the permits and/or qualifications they need to run the business.

Fig. Column 2-1-5 (3) Triggers for interest in business startups among social business entrepreneurs



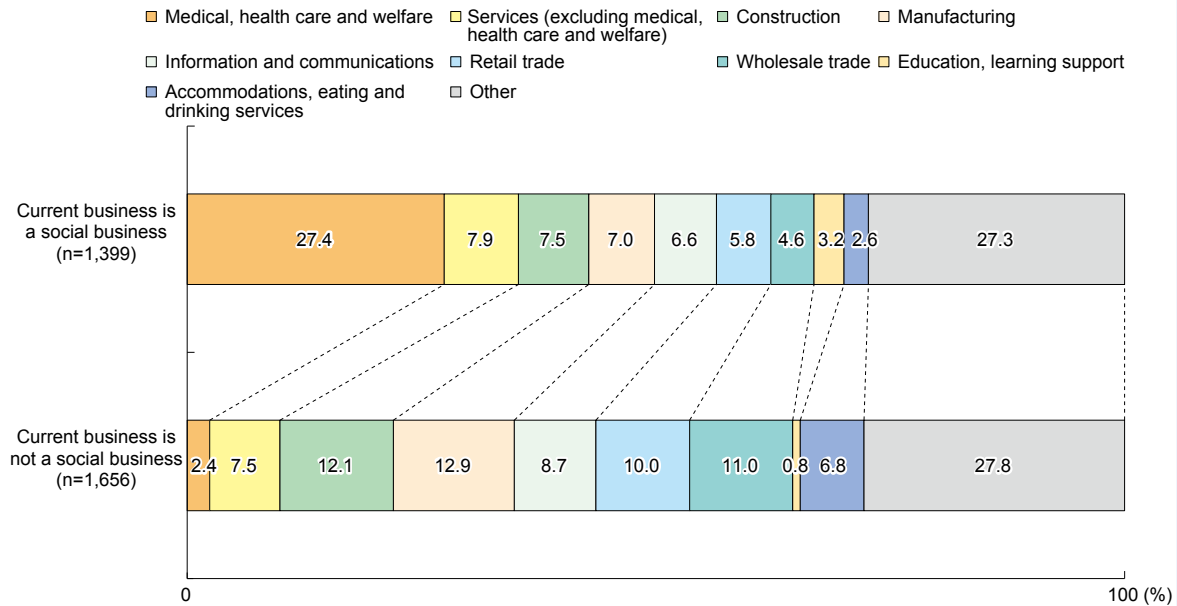
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Distribution of social business entrepreneurs in the major industries

Fig. Column 2-1-5 (4) compares social business entrepreneurs and non-social business entrepreneurs in terms of the main industries in which social business entrepreneurs engage. The figure shows that the highest proportion of social business entrepreneurs (27.4%) are in “Medical, health care and welfare”, followed by “Services (excluding medical, health care and welfare)”. For “Education, learning support”, they exceed the proportion of non-social business entrepreneurs.

Fig. Column 2-1-5 (4) Distribution of social business entrepreneurs in the major industries



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Figures are calculated for the major industries (those industries that have the highest overall sales in the last business period).

Social business support funding

Through its social business support funding, the Micro Business and Individual Unit of the Japan Finance Corporation (JFC) provides the funding required by entrepreneurs running businesses aimed at addressing the issues faced by regional communities. These issues include nursing care and welfare for the elderly and those with disabilities, parenting support, regional revitalization and environmental protection (Fig. Column 2-1-5 (5)).

Fig. Column 2-1-5 (5) Overview of social business support funding schemes

Eligible borrowers	People in either of the following categories: 1. Incorporated NPOs 2. People not in incorporated NPOs who are either (1) or (2) below (1) People operating childcare service businesses or nursing care service businesses ^(*) (2) People operating business aimed at addressing social issues ^(*)
Loan uses	Capital expenditure or working capital needed to conduct the business
Maximum amounts loaned	¥72 million (including ¥48 million for working capital)
Loan interest rate	Standard rate However, people in the following categories qualify for a special interest rate: (1) People operating childcare service businesses or nursing care service businesses (2) Approved incorporated NPOs (including incorporated NPOs with provisional approval) (3) People operating business aimed at addressing social issues
Loan term	Capital expenditure: Up to 20 years <deferred up to 2 years> Working capital: Up to 7 years <deferred up to 2 years>
Applicable financial institutions	Japan Finance Corporation (JFC), Micro Business and Individual Unit

Notes: *1: Refers to welfare services for the aged and care services, child welfare services and welfare services for disabled persons as listed in the Japanese Standard Industrial Classification.
*2: Must meet set requirements stipulated by the JFC.

Column 2-1-6 Startups in diverse formats

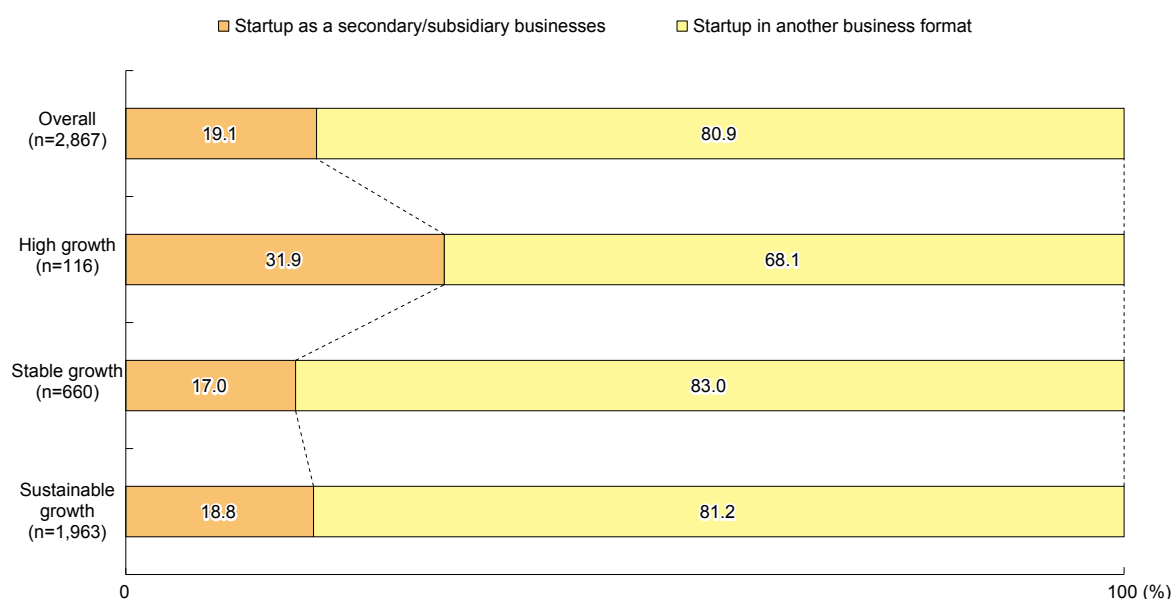
There has been increasing attention in recent years on secondary/subsidiary businesses as one approach to starting up a business. Another new type of business startup gaining prominence is the “freelance²⁰⁾” startup, where an individual works using his or her own technology, ability and skills without being part of a larger organization.

In this column, we gain an overview of the more diverse formats for business startup, specifically secondary/subsidiary and freelance startups.

Proportions of secondary/subsidiary business startups by growth type

Firstly, we look at the conditions for entrepreneurs starting up secondary/subsidiary businesses. Fig. Column 2-1-6 (1) shows entrepreneurs starting up secondary/subsidiary businesses as a proportion of all entrepreneurs according to their current growth type 5–10 years after the business was established. Looking at the figure, we can see that roughly 20% of all entrepreneurs chose the secondary/subsidiary business format when setting up their business. If we look at the results by growth type, a higher proportion of entrepreneurs targeting high growth selected the secondary/subsidiary business format than was the case for those aiming for stable or sustainable growth.

Fig. Column 2-1-6 (1) Proportions of secondary/subsidiary business startups by growth type



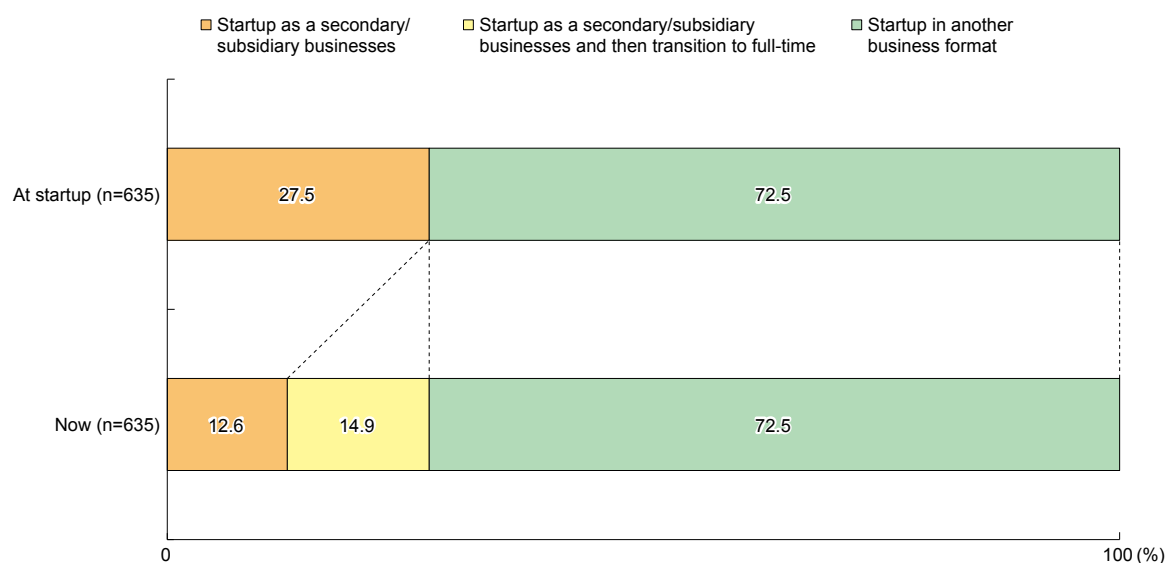
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

20) Because “freelance” businesses are generally not clearly defined, for the purposes of this white paper, they are defined as “businesses operating through the provision by the business owner of his or her own skills and/or capabilities without being part of any specific organization and without employing any permanent staff, and where the business owners recognize the businesses they run as ‘freelance’”.

Breakdown of enterprise types at startup and currently

Next, we use the findings of the "FY2016 Survey of Business Startups and Startup Awareness"²¹⁾ conducted by the JFC's Research Institute to examine the conditions for secondary/subsidiary business startups when they were founded and now. These findings show that, of the entrepreneurs who started up a business as a secondary/subsidiary business, around half discontinued the secondary/subsidiary business format after some time and transitioned to a format in which they worked full-time in the business they had founded.

Fig. Column 2-1-6 (2) Breakdown of enterprise types at startup and currently



Source: Formulated by the SME Agency from the *FY2016 Survey of Business Startups and Startup Awareness* (November 2016, JFC Research Institute)

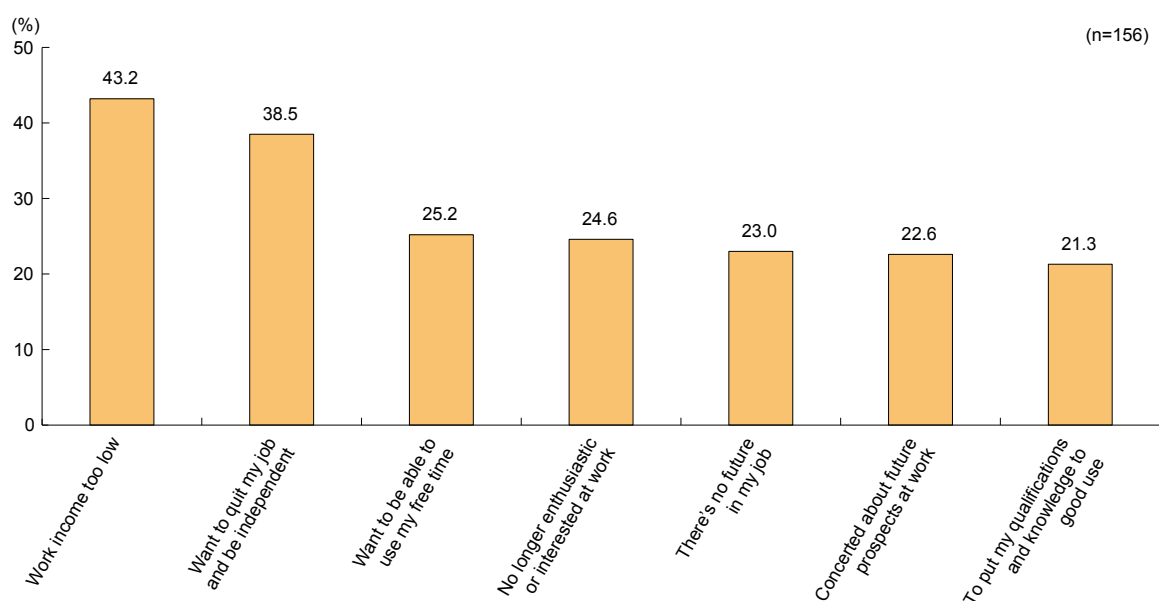
Note: Totals are calculated for responses regarding secondary/subsidiary business types at startup and currently as they apply to male and female entrepreneurs aged 18 to 69 who replied that they had started up their own businesses in or after 2011.

21) A questionnaire-based survey of 317,861 Internet-monitored respondents aged 18-69 conducted throughout Japan in November 2016 by the Research Institute of the Japan Finance Corporation (JFC).

Reasons for starting up a business in secondary/subsidiary format

We have also used the same survey to examine the reasons why entrepreneurs who established secondary/subsidiary businesses used that particular format for their business startups. The results show that the most frequently selected reason was “Work income too low”, followed by “Want to quit my job and be independent” and then “Want to be able to use my free time” (Fig. Column 2-1-6 (3)). We also see that a high proportion of the entrepreneurs who started up secondary/subsidiary businesses did so to supplement their earnings from their main job, which places the emphasis on their main occupation. However, after gaining some experience in the secondary/subsidiary business, a similarly high proportion were trying to make the business their main occupation.

Fig. Column 2-1-6 (3) Reasons for starting up a business in secondary/subsidiary format



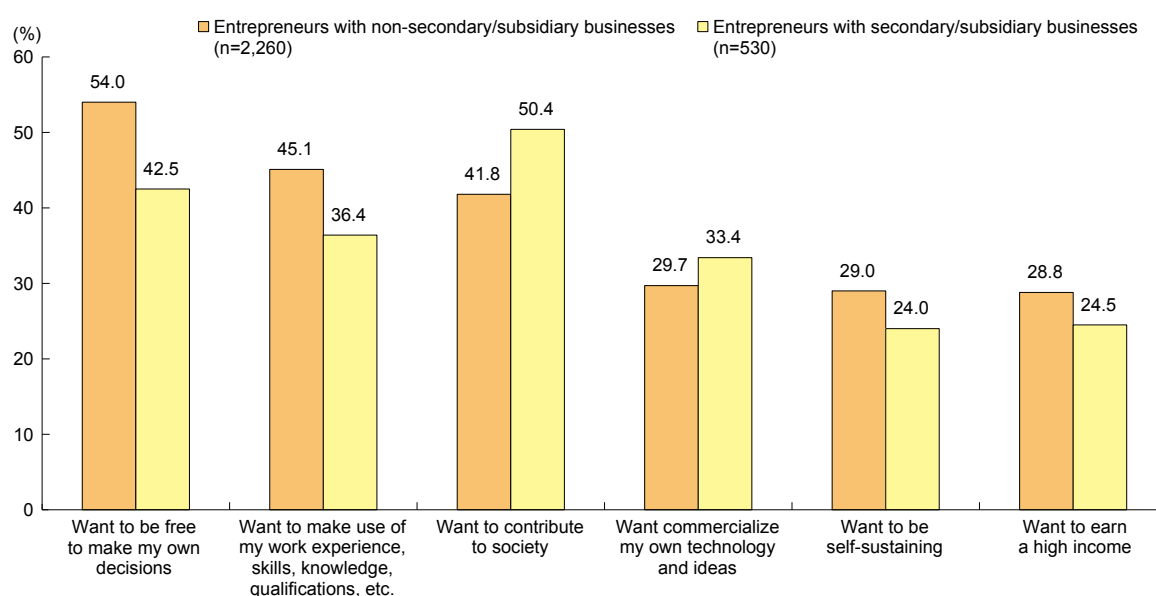
Source: Formulated by the SME Agency from the FY2016 Survey of Business Startups and Startup Awareness (November 2016, JFC Research Institute)

- Notes:
1. Totals are calculated for those male and female entrepreneurs throughout Japan aged 18 to 69 who replied that they had started up their own businesses in or after 2011 and who started up secondary/subsidiary businesses.
 2. The chart lists the seven items with the highest proportion of responses.
 3. Total does not always equal 100% as multiple responses were possible.

Aims of businesses started up in secondary/subsidiary format

Next, we compare the aims of entrepreneurs who started up their businesses as secondary/subsidiary businesses (hereinafter referred to as “entrepreneurs with secondary/subsidiary businesses”) with those of entrepreneurs who did not (hereinafter referred to as “entrepreneurs with non-secondary/subsidiary businesses”). This comparison shows that, while high proportions of entrepreneurs with non-secondary/subsidiary businesses selected “Want to be free to make my own decisions” and “Want to make use of my work experience, skills, knowledge, qualifications, etc.”, the highest proportions of entrepreneurs with secondary/subsidiary businesses selected “Want to contribute to society”, and the proportions who selected “Want to contribute to society” and “Want commercialize my own technology and ideas” were higher when compared with entrepreneurs with non-secondary/subsidiary businesses (Fig. Column 2-1-6 (4)).

Fig. Column 2-1-6 (4) Aims of businesses started up in secondary/subsidiary format



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The chart shows the six items with the highest proportion of responses from entrepreneurs with non-secondary/subsidiary businesses.

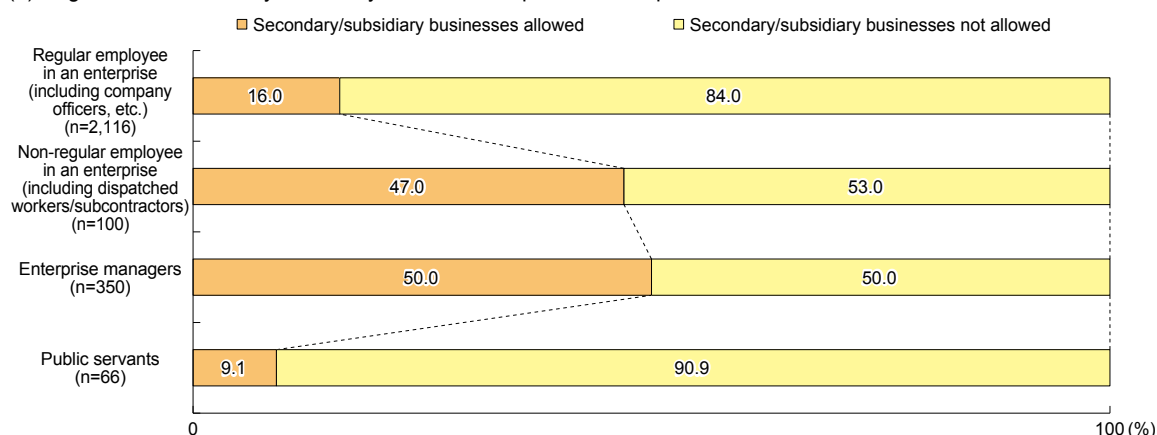
Regulation of secondary/subsidiary businesses in previous workplace work rules

Below, we will consider the types of workplaces from which entrepreneurs with secondary/subsidiary businesses started up their businesses.

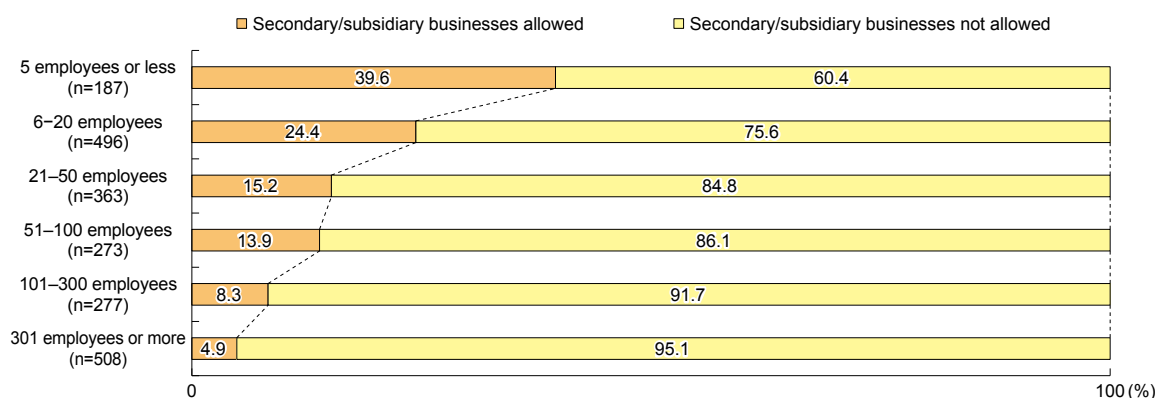
We will begin by looking at the regulation of secondary/subsidiary businesses in the work rules for the entrepreneur's workplace before he or she started up that secondary/subsidiary business, as shown in Fig. Column 2-1-6 (5). The figure shows that, while around half of the responses from a "Non-regular employee in an enterprise (including dispatched workers/subcontractors)" or "Enterprise manager" stated that secondary/subsidiary businesses were allowed, roughly 80% of the responses from a "Regular employee in an enterprise (including company officers, etc.)" stated that secondary/subsidiary businesses were not allowed. Also, if we look at the regulation of secondary/subsidiary businesses in work rules for people who had been regular employees in an enterprise in their workplaces before starting up a business, the breakdown by number of employees in the workplace reveals that, as the number of employees rises, an increasing proportion responded that secondary/subsidiary businesses were not permitted.

Fig. Column 2-1-6 (5) Regulation of secondary/subsidiary businesses in previous workplace work rules

(1) Regulation of secondary/subsidiary businesses in previous workplace work rules



(2) Regulation of secondary/subsidiary businesses in work rules according to number of previous workplace employees



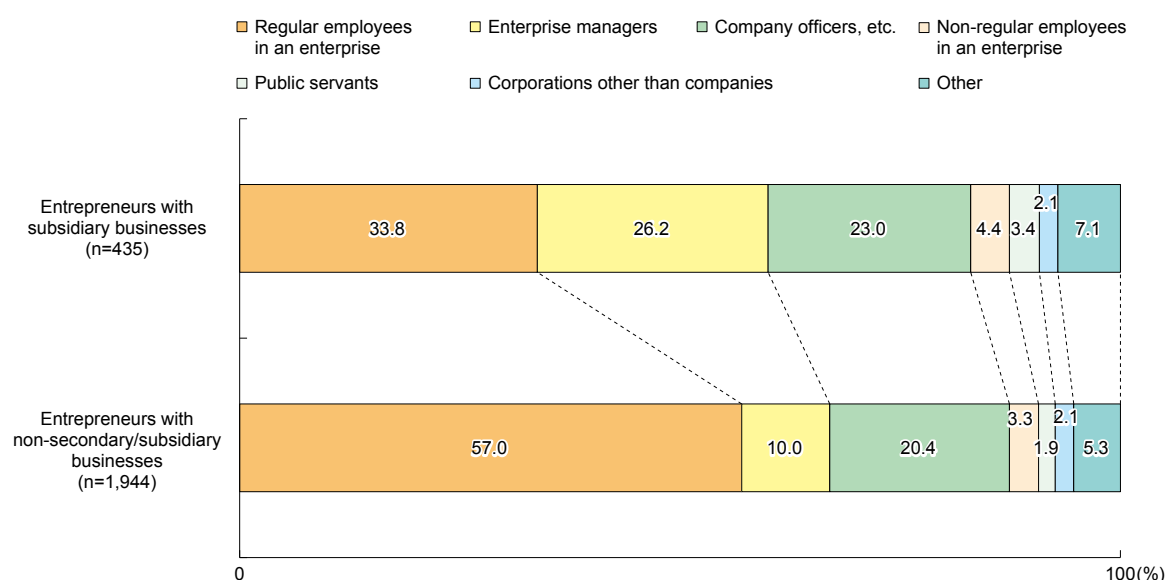
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Notes: 1. The totals in (1) are for responses from all entrepreneurs regarding the regulation of secondary/subsidiary businesses in the work rules of their workplace immediately prior to business startup.
2. The totals in (2) are for responses from entrepreneurs who responded that their position in their workplace immediately prior to business startup was "Regular employee in an enterprise (including company officers, etc.)"

Positions in the main business of entrepreneurs with secondary/subsidiary businesses and the positions of entrepreneurs with non-secondary/subsidiary businesses prior to business startup

If we now look at the positions in the main business of entrepreneurs with secondary/subsidiary businesses, we can see that the position occupied by the highest proportion of entrepreneurs with secondary/subsidiary businesses was "Regular employee in an enterprise" (Fig. Column 2-1-6 (6)). The proportion of entrepreneurs with secondary/subsidiary businesses who held the position of "Enterprise managers" is also high compared with entrepreneurs with non-secondary/subsidiary businesses. This data shows that the highest proportion of entrepreneurs who start up secondary/subsidiary businesses do so while they are still employed in a workplace. It also shows that some secondary/subsidiary businesses are started up by entrepreneurs who are already running a business and start up the secondary/subsidiary business in order to conduct business that is separate to their main business.

Fig. Column 2-1-6 (6) Positions in the main business of entrepreneurs with secondary/subsidiary businesses and of entrepreneurs with non-secondary/subsidiary businesses prior to business startup



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

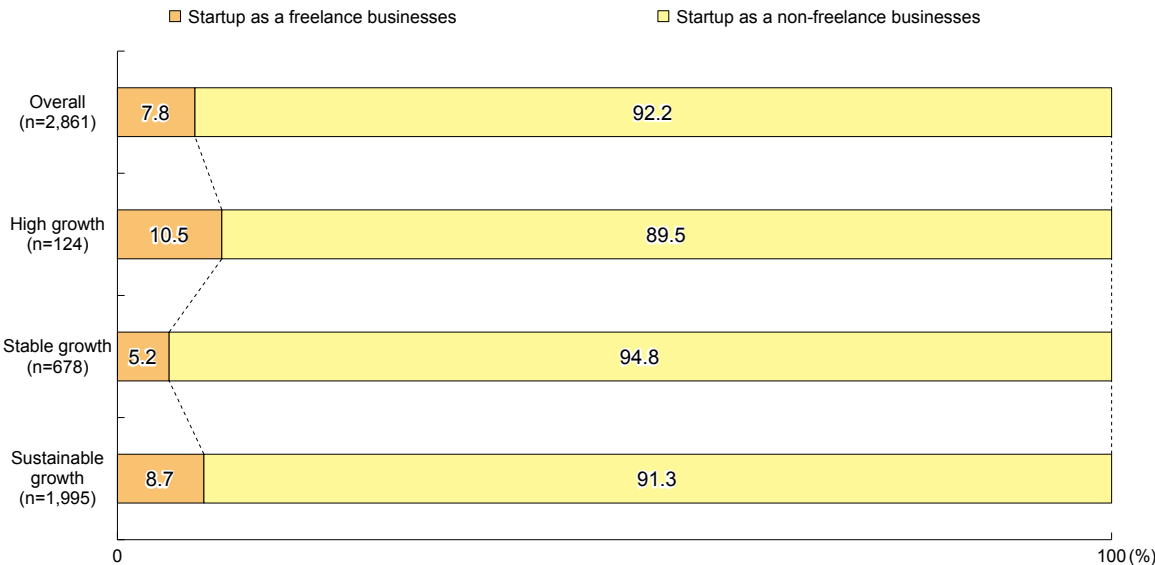
Note: Totals for entrepreneurs with non-secondary/subsidiary businesses are calculated for the positions in which they were employed immediately before starting up a business. Also, totals for people who left work to prepare for starting up a business or who were unemployed before starting up a business show their previous employment status.

Freelance business startups by growth type

Below, we look at businesses started up as freelance businesses. Fig. Column 2-1-6 (7) shows the proportions of businesses started up as freelance businesses according to growth type.

The figure shows that 7.8% of all entrepreneurs started up their businesses as freelance businesses. If we look at the results by growth type, a higher proportion of entrepreneurs targeting high growth selected the freelance business format than entrepreneurs aiming for stable or sustainable growth.

Fig. Column 2-1-6 (7) Proportions of freelance businesses startups according to growth type



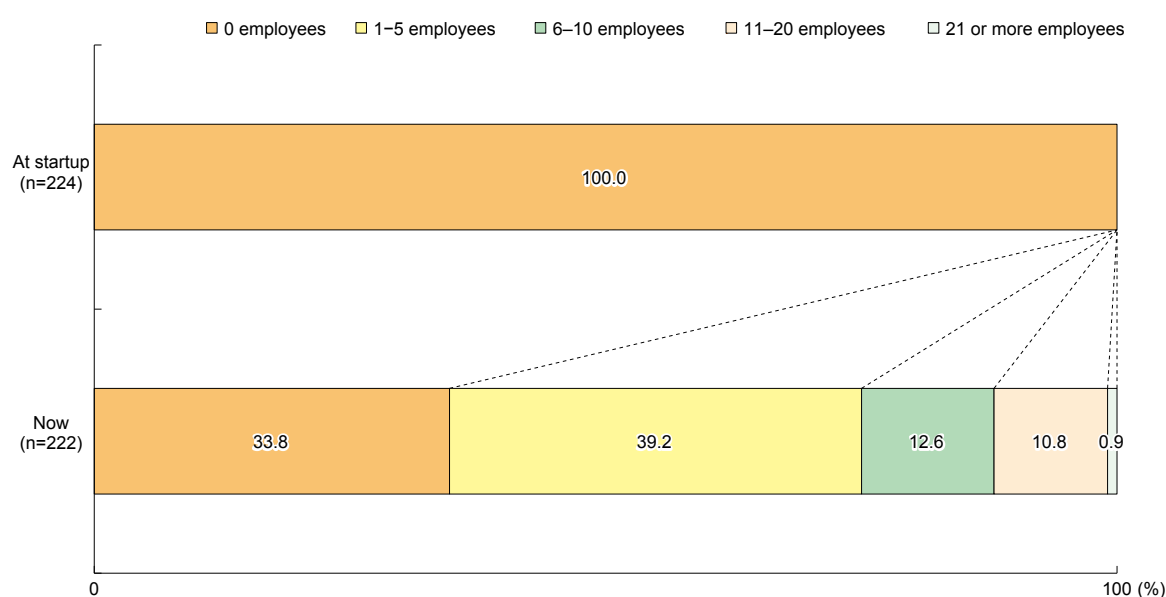
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. In this column, “freelance” refers to “businesses operating through the provision by the business owner of his or her own skills and/or capabilities without being part of any specific organization and without employing any permanent staff, and where the business owners recognize the businesses they run as ‘freelance’”.
 2. Here, totals are calculated for each growth type for businesses that were freelance at startup.

Enterprise sizes at startup and currently for entrepreneurs who started up freelance businesses

In Fig. Column 2-1-6 (2), we saw that entrepreneurs with secondary/subsidiary businesses tend to transition to working full-time in the secondary/subsidiary business, so here we examine that same trend after startup for freelance businesses. Fig. Column 2-1-6 (8) looks at entrepreneurs who started up freelance businesses and shows the current number of full-time workers and employees and the number at startup in established enterprises. The figure shows that, of entrepreneurs who started up freelance businesses, 70% of the entrepreneurs went on to employ staff and were no longer freelance.

Fig. Column 2-1-6 (8) Number of full-time workers and employees currently and at startup for entrepreneurs who started up freelance businesses



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Totals are calculated for the number of full-time employees and workers at enterprises run by entrepreneurs who started up freelance businesses.

In this column, we have looked at the conditions for differing types of business startup, specifically businesses that started up as secondary/subsidiary business and as freelance businesses. What these two business startups have in common is that they are both "businesses that start small". By starting small with little or no initial investment needed, the risks posed by failure if the business fails to go as planned can probably be kept to a minimum. In the survey results shown so far, we have seen that there are many people, regardless of whether they are interested in starting up a business, who see business startups as carrying considerable risk due to the losses incurred if the business fails. However, as more people become aware of secondary/subsidiary and freelance models for business startups and recognize the low risks involved and the relative absence of hurdles to be overcome, they may come to have a new impression of business startups and this may broaden the base from which future business startups can develop.

2. Conditions and issues by growth type and growth stage

For businesses to succeed and grow after they start up, they must overcome the issues and difficulties that confront them at each growth stage after startup. Below, we first divide the growth process that businesses go through on the way to success after they start up into the three stages shown below and then look at issues that enterprises face in each growth stage, and the circumstances of the efforts they make. Among the three enterprise types

(high growth, stable growth and sustainable growth), this paper will focus on sustainable growth enterprises, and consider the types of support they need in order to grow successfully after startup, by examining the issues they face in each growth stage, their efforts they make, and support measures they use²²⁾.

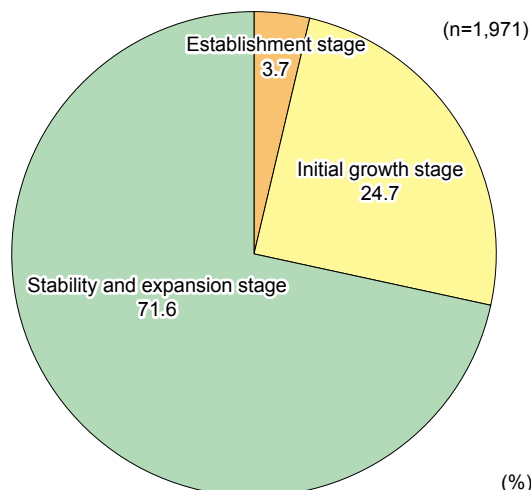
1. Establishment stage: Stage in which the business records no sales of products and/or services
2. Initial growth stage: Stage in which sales are recorded, but operating profit is still in negative territory
3. Stability and expansion stage: Stage in which sales are recorded and a positive operating profit is recorded in at least one period

(1) Current growth stages of sustainable growth enterprises

Fig. 2-1-49 shows the results when sustainable growth enterprises were asked about their current growth stage 5–10 years after startup. The figure shows that around 70% of all the enterprises responded that they were in the stability and expansion stage. However, we also see that roughly 30% responded that they were currently in either

the establishment stage or the initial growth stage, despite at least five years having elapsed since startup. In other words, around 30% of sustainable growth enterprises have not posted sales or achieved a profit even after at least five years having passed since startup, and they are likely facing various issues in advancing to the next growth stage.

Fig. 2-1-49 Current growth stages of sustainable growth enterprises



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: The responses of sustainable growth enterprises concerning their current growth stage are shown above.

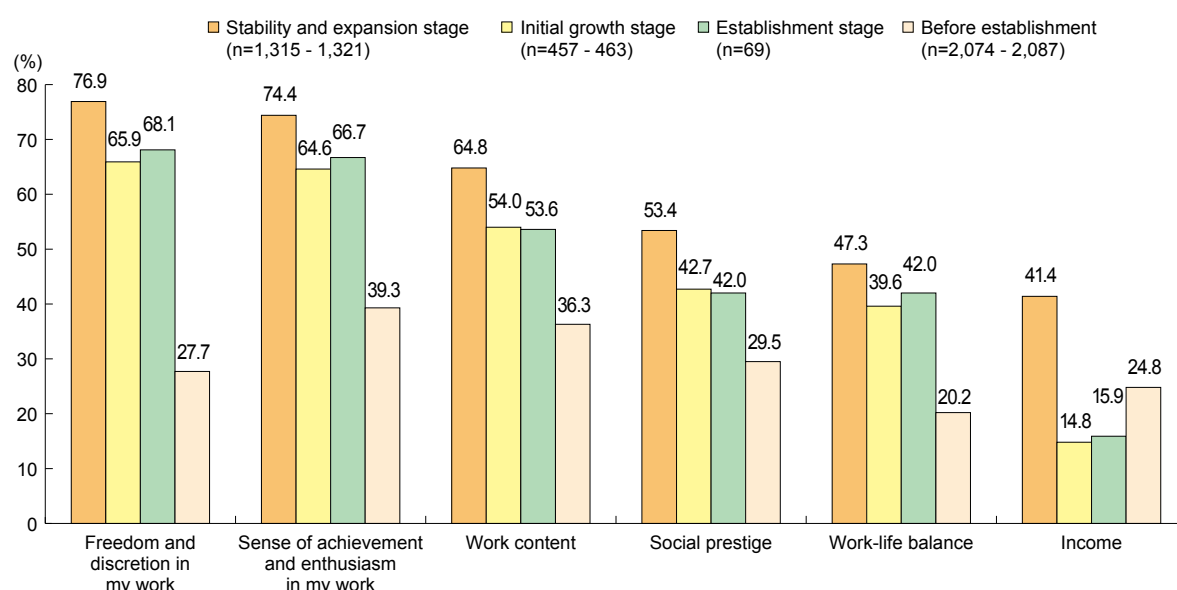
22) Issues that high growth and stable growth enterprises face in each stage of growth, the efforts they make, and support measures they use, are analyzed in the *2017 White Paper on Small and Medium Enterprises*, Part II, Chapter 1, Sections 3 and 4.

(2) Sense of satisfaction with work among sustainable growth enterprises according to growth stage

Fig. 2-1-50 shows the responses when entrepreneurs in sustainable growth enterprises were asked about their feelings of satisfaction with their work before business startup and at each of the growth stages after startup. The figure shows that, for all the criteria except income, the respondents' satisfaction with work in the establishment stage after startup was remarkably improved compared with before startup. By contrast, satisfaction with income was actually higher before startup than it was in the establishment stage after startup. In terms of the growth stages, if we compare the initial growth stage with the establishment stage, respondents in the initial growth stage were generally less satisfied than those in the establishment stage across all the criteria. These findings lead us to conclude that, in the establishment stage,

satisfaction levels are higher because the respondents are engaged in a business that was not possible in their workplace and they are happier than before starting up the business because they are able to work freely and make their own decisions. On the other hand, as will be shown in a more detailed analysis in the coming pages, starting up and operating a business raises various issues that must be faced, and in the initial growth stage this leads to a decline in the sense of satisfaction compared with the establishment stage. Once businesses reach the stability and expansion stage, satisfaction levels in all the criteria again rise significantly, showing that sustainable growth enterprises confront various issues in the establishment and initial growth stages, then resolve and overcome those issues so that they can move on to the stability and expansion stage.

Fig. 2-1-50 Sense of satisfaction with work among sustainable growth enterprises, according to growth stage



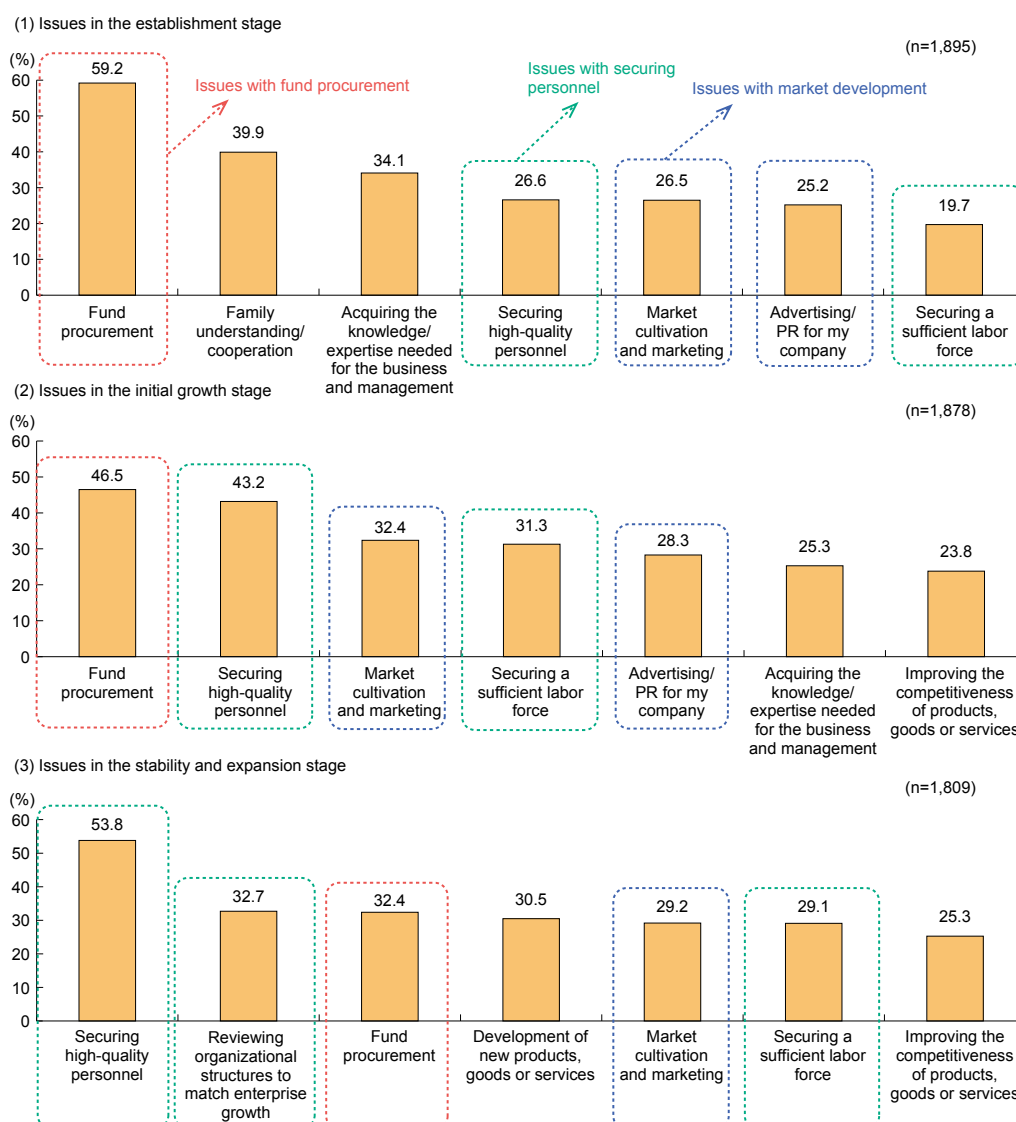
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The responses of sustainable growth enterprises are shown above.
 2. Totals for the respective items are for the proportions who responded "Satisfied".
 3. Total does not always equal 100% as multiple responses were possible.

(3) Issues faced by sustainable growth enterprises in each growth stage

So, what are the respective issues that confront sustainable growth enterprises in each of the establishment, initial growth and stability and expansion growth stages? Here, Fig. 2-1-51 shows the issues confronting sustainable growth enterprises in each of the growth stages. It shows that in the establishment stage the highest proportion of enterprises opted for “Fund procurement” followed by “Family understanding/cooperation.” So we can see that the highest proportion of enterprises in the establishment stage chose “Fund procurement” and that they also had difficulty getting sufficient understanding from families regarding business startups, showing that a similarly large number of enterprises faced issues specific to the establishment stage. In the initial growth stage, the proportion of enterprises selecting “Fund procurement” is still high, as it was in the establishment stage, but a drop was seen in “Family understanding/cooperation”, compared to the high proportion it exhibited in the establishment stage. Issues relating to securing staff, namely “Securing high-quality personnel” and “Securing

a sufficient labor force”, and issues around market development, namely “Market cultivation and marketing” and “Advertising/PR for my company”, also attracted a relatively high proportion of responses, following fund procurement. Finally, in the stability and expansion stage, the highest proportion goes to “Securing high-quality personnel”, followed by “Reviewing organizational structures to match enterprise growth”, showing that the most challenging issues facing enterprises in the stability and expansion stage are securing personnel and arranging the structure of the organization. From this, we can see that the issues attracting a high proportion of responses change for each growth stage, with the prominent issues being fund procurement in the establishment stage, fund procurement, securing personnel and securing sales in the initial growth stage, and securing personnel and arranging the organization structure in the stability and expansion stage. The other finding is that the issue of market development, while not the most pressing issue, is one that is common to all of the growth stages, and particularly the initial growth stage.

Fig. 2-1-51 Issues faced by sustainable growth enterprises in each growth stage

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The responses of sustainable growth enterprises are shown above.
 2. Totals for establishment stage issues are calculated from the existing issues for enterprises currently in the establishment growth stage as well as the issues faced by enterprises currently in the initial growth stage and stability and expansion stage when they were in the establishment stage.
 3. Totals for initial growth stage issues are calculated from the existing issues for enterprises currently in the initial growth stage as well as the issues faced by enterprises currently in the stability and expansion stage when they were in the initial growth stage.
 4. Totals for stability and expansion stage issues are calculated from the existing issues for enterprises currently in the stability and expansion stage.
 5. The charts show the seven items with the highest proportion of responses for each of the respective growth stages.
 6. Total does not always equal 100% as multiple responses were possible.

3. Issues and initiatives for sustainable growth enterprises by growth stage

Here, we examine the respective issues confronted and the circumstances of the efforts made in each growth stage by sustainable growth enterprises, focusing particularly on three factors that were considered in each growth stage: fund procurement, securing personnel and market development. We also look at their usage of measures such as support policies in each growth stage.

(1) Issues with fund procurement at each growth stage for sustainable growth enterprises

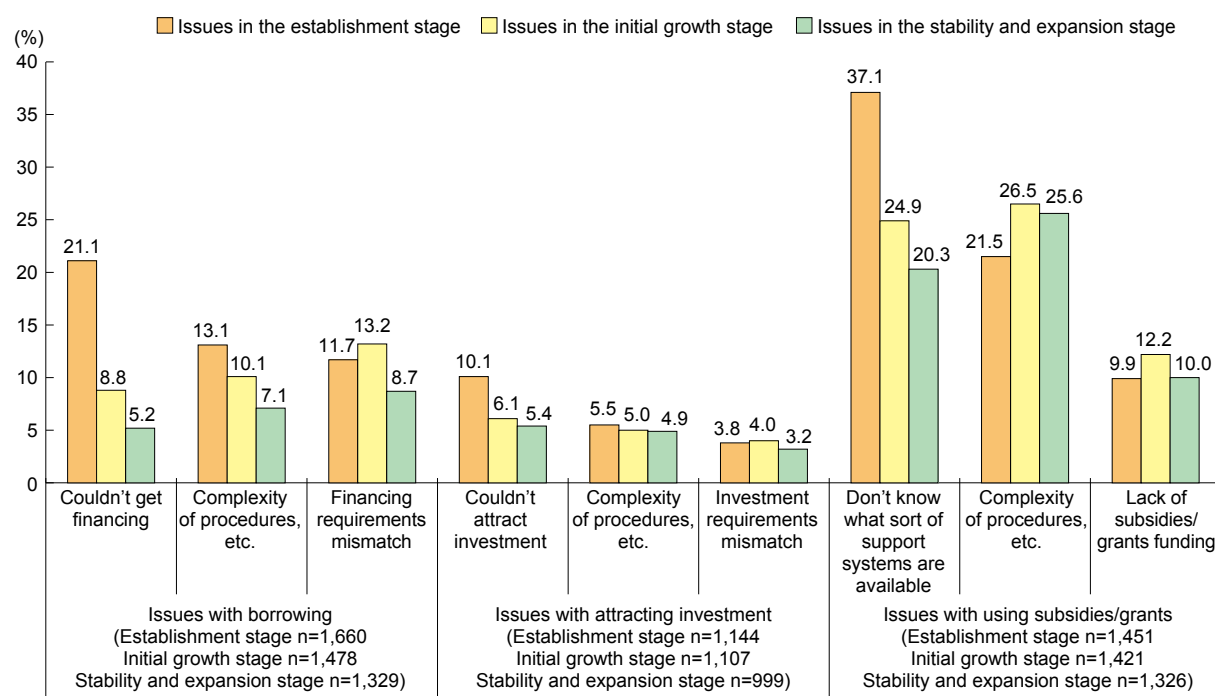
Let us begin by focusing on funding procurement as a particularly large issue during the establishment stage, and identify the funding procurement issues and the circumstances of the steps taken in each growth stage. Here, fund procurement is a simple expression that encompasses a wide range of financing methods, including borrowings from financial institutions in the form of loans or corporate bonds, venture capital and financing from personal investors, investment in the form of funds raised from family and friends, and the use of grants and subsidies from the national government and local governments.

Fig. 2-1-52 compares the different issues faced by sustainable growth enterprises when procuring funds, according to growth stage. Looking first at issues with borrowings, the highest proportion of respondents chose “Couldn’t get financing” in the establishment stage, whereas in the initial growth stage and the stability and expansion stage, the response with the highest proportion was “Financing requirements mismatch”, showing that borrowing issues faced change as enterprises transition

through the growth stages.

If we then look at the issues around attracting investment, the response with the highest proportion in all the growth stages is “Couldn’t attract investment”. Furthermore, when considering that “Couldn’t attract investment” continued to be the response with the highest proportion through all growth stages, it could be said that to sustainable growth enterprises, attracting investment is far more difficult than obtaining financing not only in the establishment stage, but also the initial growth and stability and expansion stages as well.

Looking lastly at grants and subsidies, a high proportion of respondents in the establishment stage chose “Don’t know what sort of support systems are available”, whereas in the initial growth stage and stability and expansion stage, the highest proportions selected “Complexity of procedures, etc.”. These findings indicate that sustainable growth enterprises are unable to utilize grants and subsidies in the establishment stage because they were unaware of their existence, and that as enterprises progress through the growth stages, they become better at recognizing grants and subsidies, but still cannot access grants and subsidies as they would like due to the complexity of the procedures, such as completing applications and preparing required documents such as business plans. Accordingly, it is important that entrepreneurs engaged in starting up a business are actively provided with advertising and information. It is also vital that procedures be simplified to ease the burden on entrepreneurs so that they can better access grants and subsidies.

Fig. 2-1-52 Issues with fund procurement at each growth stage for sustainable growth enterprises

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for sustainable growth enterprises who responded that they have had issues or are having issues when procuring funding.
 2. "No particular issues" responses are not presented here.
 3. Total does not always equal 100% as multiple responses were possible.

(2) Fund procurement methods used by sustainable growth enterprises in each growth stage

Here, we look at the fund procurement methods used and not used by sustainable growth enterprises in each growth stage and classify them and their usage into four categories: (1) External borrowings (from private financial institutions or governmental financial institutions); (2) internal borrowings (self-funding by managers themselves or funding from family, relatives, friends or acquaintances); (3) investment (venture capital, funds from individual investor or crowd funding²³⁾); and (4) subsidies/grants (using public subsidies/grants).

The fund procurement methods used by sustainable growth enterprises in each growth stage is shown in Fig. 2-1-53. The figure shows that initially, “Self-funding by managers themselves” gained the highest proportion of responses in the establishment stage, followed by “Borrowings from private financial institutions” and then “Borrowings from family, relatives, friends or acquaintances”. In the subsequent initial growth and

stability and expansion stages, the highest proportion goes to “Borrowings from private financial institutions”, followed by “Self-funding by managers themselves” and then “Borrowings from governmental financial institutions”. As the enterprises progress through the growth stages, the proportions responding “Self-funding by managers themselves” and “Borrowings from family, relatives, friends or acquaintances” decline, whereas the proportions choosing the “Borrowings from private financial institutions”, “Borrowings from governmental financial institutions” and “Use of public subsidies/grants” responses increase. These results show that sustainable growth enterprises change their funding procurement methods as they progress through the growth stages. From raising funds in the establishment stage from the people around them, particularly from the managers themselves and from family and relatives, they transition to funding procurement from outside, such as from private and governmental financial institutions, and the use of public subsidies and grants.

Fig. 2-1-53 Fund procurement methods used by sustainable growth enterprises in each growth stage

	1st	2nd	3rd	4th	5th
Fund procurement methods used in the establishment stage (n=1,956)	Self-funding by managers themselves (80.2%)	Borrowings from private financial institutions (34.9%)	Borrowings from family, relatives, friends or acquaintances (34.0%)	Borrowings from governmental financial institutions (25.2%)	Use of public subsidies/grants (8.9%)
Fund procurement methods used in the initial growth stage (n=1,798)	Borrowings from private financial institutions (59.0%)	Self-funding by managers themselves (52.5%)	Borrowings from governmental financial institutions (35.0%)	Borrowings from family, relatives, friends or acquaintances (20.8%)	Use of public subsidies/grants (13.1%)
Fund procurement methods used in the stability and expansion stage (n=1,517)	Borrowings from private financial institutions (61.6%)	Self-funding by managers themselves (48.5%)	Borrowings from governmental financial institutions (34.1%)	Use of public subsidies/grants (13.8%)	Borrowings from family, relatives, friends or acquaintances (13.6%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from sustainable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for each funding procurement methods used or now using in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

23) “Crowd funding” refers to an IT-based funding procurement method whereby funds are raised from an unspecified number of people via the Internet. See the 2014 White Paper on Small and Medium Enterprises in Japan, Part III, Chapter 5, Section 2 for more detailed information on crowd funding.

(3) Fund procurement methods desired by sustainable growth enterprises in each growth stage

Next, we look at the fund procurement methods that sustainable growth enterprises wanted to use in each growth stage, as shown in Fig. 2-1-54. Looking at the figure, the highest proportion of responses in the establishment stage is for “Borrowings from private financial institutions”, followed by “Borrowings from governmental financial institutions” and then “Use of public subsidies/grants”. In the initial growth stage, high proportions opted for “Use of public subsidies/grants” and “Venture capital or investment by investment partnerships, funds, etc.” in the initial growth stage, and for “Use of public subsidies/grants” and “Use of crowd funding” in the stability and expansion stage. As enterprises progress through the growth stages, the proportions for “Borrowings from

private financial institutions” and “Borrowings from governmental financial institutions” generally decline, whereas the proportions for “Use of public subsidies/grants”, “Venture capital or investment by investment partnerships, funds, etc.” and “Use of crowd funding” increase.

These findings show us that sustainable growth enterprises wanted financing from financial institutions when they started up, but they actually funded themselves. As they grow and mature, they are able to access financing from financial institutions and public subsidies and grants but they also have strong needs for various financing options other than borrowings from financial institutions, such as venture capital, investment by individual investors and crowd funding, and they are not always able to use those other funding options.

Fig. 2-1-54 Fund procurement methods sustainable growth enterprises wanted to use in each growth stage

	1st	2nd	3rd	4th	5th
Desired fund procurement methods in the establishment stage (n=391)	Borrowings from private financial institutions (48.8%)	Borrowings from governmental financial institutions (48.6%)	Use of public subsidies/grants (43.5%)	Venture capital or investment by investment partnerships, funds, etc. (38.6%)	Investment by individual investors (36.1%)
Desired fund procurement methods in the initial growth stage (n=309)	Use of public subsidies/grants (49.5%)	Venture capital or investment by investment partnerships, funds, etc. (46.6%)	Borrowings from governmental financial institutions (44.3%)	Investment by individual investors (43.4%)	Use of crowd funding (43.0%)
Desired fund procurement methods in the stability and expansion stage (n=258)	Use of public subsidies/grants (51.2%)	Use of crowd funding (47.7%)	Venture capital or investment by investment partnerships, funds, etc. (46.9%)	Borrowings from governmental financial institutions (45.3%)	Investment by individual investors (44.2%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from sustainable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for each of the funding procurement methods that enterprises desired but could not use in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(4) Conditions on collateral/guarantees used when sustainable growth enterprises received financing

Here, let us examine the conditions on the collateral or guarantees used by sustainable growth enterprises when receiving financing. Fig. 2-1-55 shows the conditions that applied in each growth stage to the collateral or guarantees used when sustainable growth enterprises procured funding through financing. The figure shows

that the response selected by the highest proportion in every growth stage, whether it be establishment, initial growth or stability and expansion, is “Guaranteed by representatives/executives”, followed by “Guaranteed by credit guarantee corporations” and then “Real estate as collateral”. The proportions of the responses also indicate that roughly more than half of all enterprises use guarantees by representatives, executives, or credit guarantee corporations.

Fig. 2-1-55 Conditions on the collateral/guarantees used by sustainable growth enterprises receiving financing

	1st	2nd	3rd	4th	5th
Conditions on collateral/guarantees, etc. used in the establishment stage (n=1,238)	Guaranteed by representatives/executives (69.5%)	Guaranteed by credit guarantee corporations (45.3%)	Real estate as collateral (19.3%)	Guaranteed by third parties (8.9%)	Guaranteed by a surety company (5.9%)
Conditions on collateral/guarantees, etc. used in the initial growth stage (n=1,359)	Guaranteed by representatives/executives (66.4%)	Guaranteed by credit guarantee corporations (55.0%)	Real estate as collateral (17.7%)	Guaranteed by a surety company (8.8%)	Financing not guaranteed or secured (7.7%)
Conditions on collateral/guarantees, etc. used in the stability and expansion stage (n=1,201)	Guaranteed by representatives/executives (66.1%)	Guaranteed by credit guarantee corporations (50.7%)	Real estate as collateral (19.6%)	Financing not guaranteed or secured (10.9%)	Guaranteed by a surety company (8.8%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from sustainable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for the conditions applicable to the collateral/guarantee that was or is being used in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(5) Conditions on the collateral/guarantees sustainable growth enterprises wanted to use when receiving financing

Fig. 2-1-56 shows the results when sustainable growth enterprises were asked about the collateral or guarantee conditions they wanted to use when accessing financing in each growth stage but were not able to use. These findings show that the highest proportion in the establishment stage opted for the “Guaranteed by representatives/executives” response, followed by “Guaranteed by credit guarantee corporations” and then “Financing not guaranteed or secured”. In the initial growth stage and stability and expansion stage, the highest proportion chose “Financing not guaranteed or secured”, after which came “Guaranteed by credit guarantee corporations” and then “Receivables/credit as

collateral”. As shown earlier in Fig. 2-1-55, sustainable growth enterprises procure funding by receiving financing guaranteed by representatives/executives, guaranteed by credit guarantee corporations, or secured by real estate in the establishment stage and other growth stages, so it can be inferred that in the establishment stage, they primarily wished to procure funding guaranteed solely by representatives/executives. Furthermore, in the initial growth and stability and expansion stages, the financing option that both sustainable growth enterprises and stable growth enterprises want most is unsecured funding. However, many of those enterprises are unable to access unsecured financing and instead raise their funds using guarantees by representatives or executives or guarantees from credit guarantee corporations.

Fig. 2-1-56 Conditions on the collateral/guarantees that sustainable growth enterprises wanted to use when receiving financing

	1st	2nd	3rd	4th	5th
Conditions on collateral/guarantees, etc. desired in the establishment stage (n=280)	Guaranteed by representatives/executives (48.9%)	Guaranteed by credit guarantee corporations (42.9%)	Financing not guaranteed or secured (37.5%)	Guaranteed by a surety company (30.4%)	Guaranteed by third parties (30.0%)
Conditions on collateral/guarantees, etc. desired in the initial growth stage (n=211)	Financing not guaranteed or secured (43.1%)	Guaranteed by credit guarantee corporations (42.2%)	Receivables/credit as collateral (36.0%)	Property as collateral (35.1%)	Guaranteed by representatives/executives (34.6%)
Conditions on collateral/guarantees, etc. desired in the stability and expansion stage (n=197)	Financing not guaranteed or secured (47.7%)	Guaranteed by credit guarantee corporations (42.1%)	Receivables/credit as collateral (38.1%)	Guaranteed by representatives/executives (37.1%)	Guaranteed by a surety company (37.1%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from sustainable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for the collateral/guarantee conditions that enterprises wanted but could not use or want but cannot use in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

Case 2-1-5 Sen Co., Ltd.

A company that used a variety of methods of procuring funds to create a source of regional appeal

Sen Co., Ltd. (employees: 5; capital: ¥6.5 million), located in Akita City, Akita Prefecture, is a company that dispatches and organizes work for “Akita maiko,” who are representatives of traditional local culture, and also develops maiko and conducts promotions. Founded in 2014, in June 2016 the company set up a store, and added a café business to its business developing and dispatching maiko.

The company’s name incorporates the idea of connecting the world with lines (“sen”), and creating a thousand (“sen”) sources of appeal. The concept is to draw lines connecting individual familiar elements, and to create numerous sources of appeal that are rich in originality, and by doing so to reach out to people, the local region and the future.

After graduating from university, Chinatsu Mizuno, the company’s Representative Director, worked for a cosmetics company in Tokyo, but eventually returned to Akita because she wished to raise children there. While working for a local planning and PR company, Ms. Mizuno came to feel that if she could become a businesswoman in the future, that she would be able to freely work at a job at her own pace and at her own discretion, and even as a married woman she would be able to continue in her work, balancing it with child-raising duties. In addition to this, through her work in sales for the PR company, she had been made freshly aware of the severe problem represented by Akita’s declining birthrate and aging population and the decline in its population, and she began to feel strongly that she would like to help to revitalize the local region by communicating Akita’s appeal to the entire country. Ms. Mizuno decided to revive Akita maiko, an aspect of local traditional culture, and start a business that would conduct PR for Akita. She developed a concrete business plan while consulting with businesspeople around her, in particular the President of the company she worked for and her husband, who had experience of starting a business, and in 2014 she started Sen.

From the time she established the company, Ms. Mizuno used a range of methods of procuring funds, enabling her to develop the business while reducing the burden of debt. In founding the business, in addition to using her own funds, Ms. Mizuno obtained capital to a total of ¥6.5 million from 11 managers of leading Akita Prefecture companies after explaining her vision of working for the benefit of Akita traditional culture and the details of her business plan to them, allowing her to start the business without having to borrow money.

In addition, in December 2016, Ms. Mizuno obtained an aid grant from the national government and a loan from a local financial institution, and procured approximately ¥14 million from people who were sympathetic to the nature of the business via crowd funding organized by a business partner of the bank’s. With this capital behind her, she was able to rent part of a historical building, the former “Kappo Matsushita,” located at the entrance to Senshu Park which is close to Akita Station, and undertake extensive renovations to create a facility that would serve as a base for the activities of the Akita maiko.

Ms. Mizuno says, “I was able to found this company because of the support I received from people with whom the idea of Akita maiko resonated as a part of our traditional culture. By means of this business, I seek to communicate a variety of aspects of historical Japanese culture, customs and traditions that are close to us, in addition to contemporary fashions, topics and events, in an extremely appealing fashion. And I will be happy if the style of work that I have adopted, starting my own company, becomes an aspiration for the next generation.”



Akita maiko employed by Sen



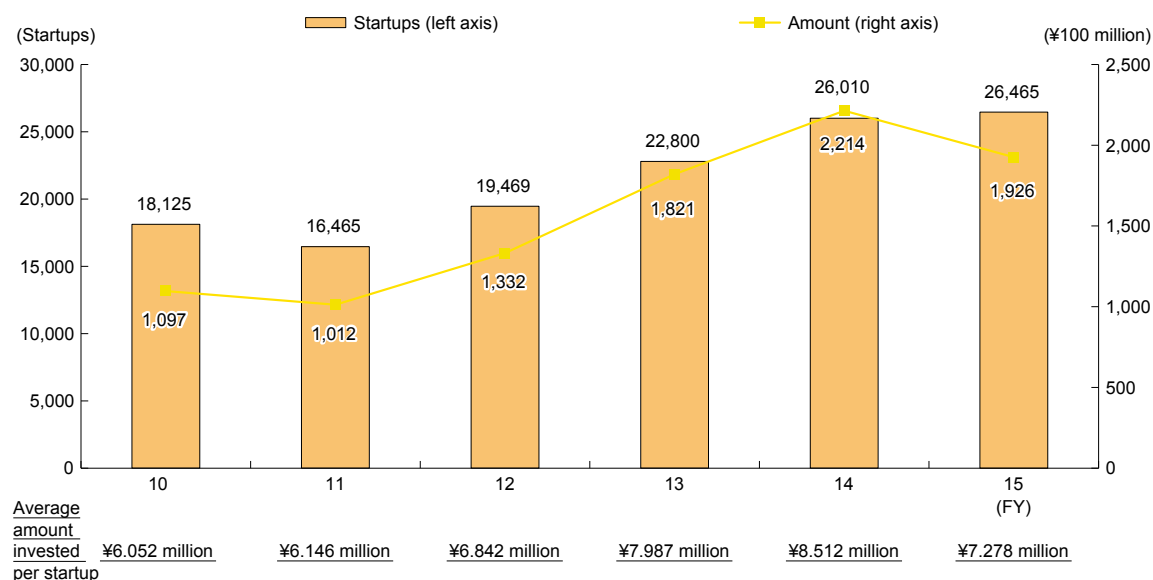
The former Kappo Matsushita, which was renovated to provide the company with its own complex

Column 2-1-7 Business startup financing schemes by governmental financial institutions

Thus far in this paper, we have looked in some detail at funding procurement methods and the types of collateral and guarantees used when funds are procured through financing. In this column, we summarize the use of financing schemes offered by the Japan Finance Corporation (JFC), one of the governmental financial institutions. The JFC, through its Micro Business and Individual Unit, offers financial support to people starting up new businesses and people in their first seven years since starting up a business in the form of the New Start-up Loan program. It also offers financing targeted at women and at men aged less than 30 or 55 or older through its Loans to Women/Youth/Senior Entrepreneurs program. (Refer to Appended notes 2-1-1 and 2-1-2 for an overview of the respective financing schemes.)

Fig. Column 2-1-7 (1) shows the numbers of enterprises that accessed financing schemes such as the Support for Business Start-ups or Loans to Women/Youth/Senior Entrepreneurs programs either before startup or within one year of startup, together with the amounts loaned. The figure shows that the base number of enterprises has increased steadily since FY2011 and that the number of startup loans in FY2015 was again higher than in the previous fiscal year.

Fig. Column 2-1-7 (1) Financing figures for enterprises before or within one year of startup

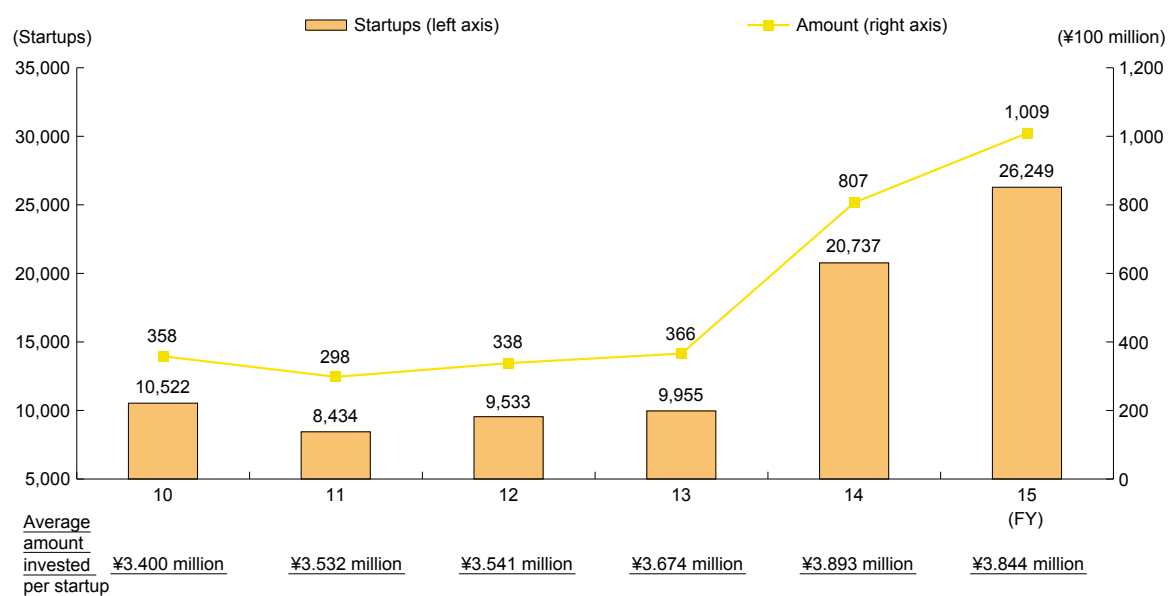


Source: Japan Finance Corporation (JFC)

When people starting up new businesses or people in their first seven years since starting up a business use the Support for Business Start-ups or Loans to Women/Youth/Senior Entrepreneurs programs discussed above, the JFC also offers no-guarantor, no-collateral loan financing through the New Start-up Loan program. (Refer to Appended note 2-1-3 for an overview of the New Start-up Loan program.) Fig. Column 2-1-7 (2) shows the financing figures for the New Start-up Loan program, showing a steadily rising trend in both the number of loans and the amounts loaned. In terms of the average amounts loaned per startup, the loan amounts under the New Start-up Loan program account for roughly half of the total amount shown in Fig. Column 2-1-7 (1), which indicates that the

enterprises accessing no-guarantor, no-collateral loan financing from the JFC are generally starting up their businesses by procuring funding in the form of loans in the order of ¥3 million or so. This clearly shows the significant role played by policy-based financing in promoting entrepreneurial activity.

Fig. Column 2-1-7 (2) Outcomes of the new startup loan program



Source: Formulated by the SME Agency using the Japan Finance Corporation (JFC), Annual Statistics of Business.

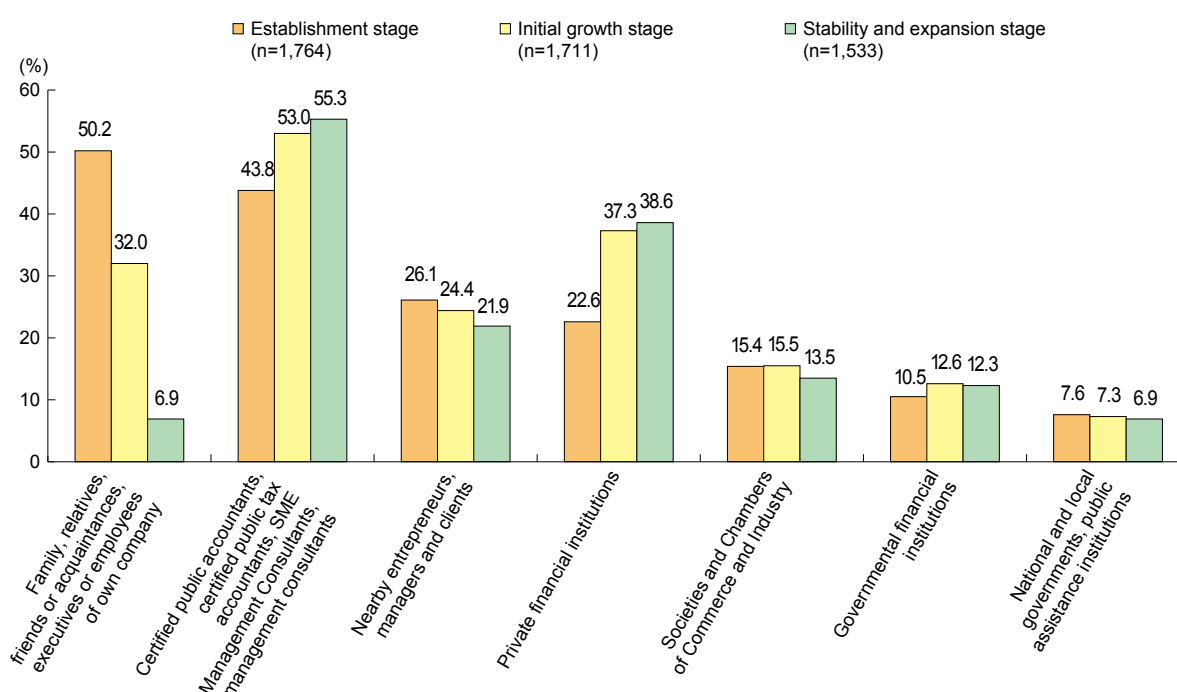
Note: Here, "New Start-up Loan program" refers to those normal (direct) loans and environmental sanitation (direct) loans in the form of no-guarantor, no-collateral financing intended for people prior to business startup or people who have not completed two taxation periods since starting up a business.

(6) Consultants utilized by sustainable growth enterprises to procure funding in each growth stage

With regard to fund procurement, Fig. 2-1-57 shows the status of consultants that sustainable growth enterprises utilize when procuring funds in each growth stage. The figures show that in the establishment stage, “Family, relatives, friends or acquaintances, executives or employees of own company” gained the highest proportion of responses, but as enterprises progressed through the growth stages into the initial growth and stability and expansion stages, the proportions of “Family, relatives, friends or acquaintances, executives or employees of own company” and “Nearby entrepreneurs, managers

and clients” declined, while the proportions of “Certified public accountants, certified public tax accountants, SME Management Consultants, management consultants” and “Private financial institutions” tended to increase. Judging by the above, it can be said that sustainable growth enterprises consult with family, friends, and others in their immediate surroundings at the time of starting up a business, but as they grow and mature, they begin to utilize external support organizations, and that effectively utilizing external support organizations is an essential element for the growth of sustainable growth enterprises.

Fig. 2-1-57 Consultants utilized by sustainable growth companies when procuring funds in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (December 2016), commissioned by the SME Agency.

- Notes:
1. The responses of sustainable growth enterprises are shown above.
 2. Ratios are calculated for sustainable growth enterprises who responded that they consulted or consult with a consultant to receive counsel or support regarding the formulation of a business plan, advice on fund procurement, when procuring funds.
 3. The top seven responses with the highest proportions are shown above.
 4. Total does not always equal 100% as multiple responses were possible.

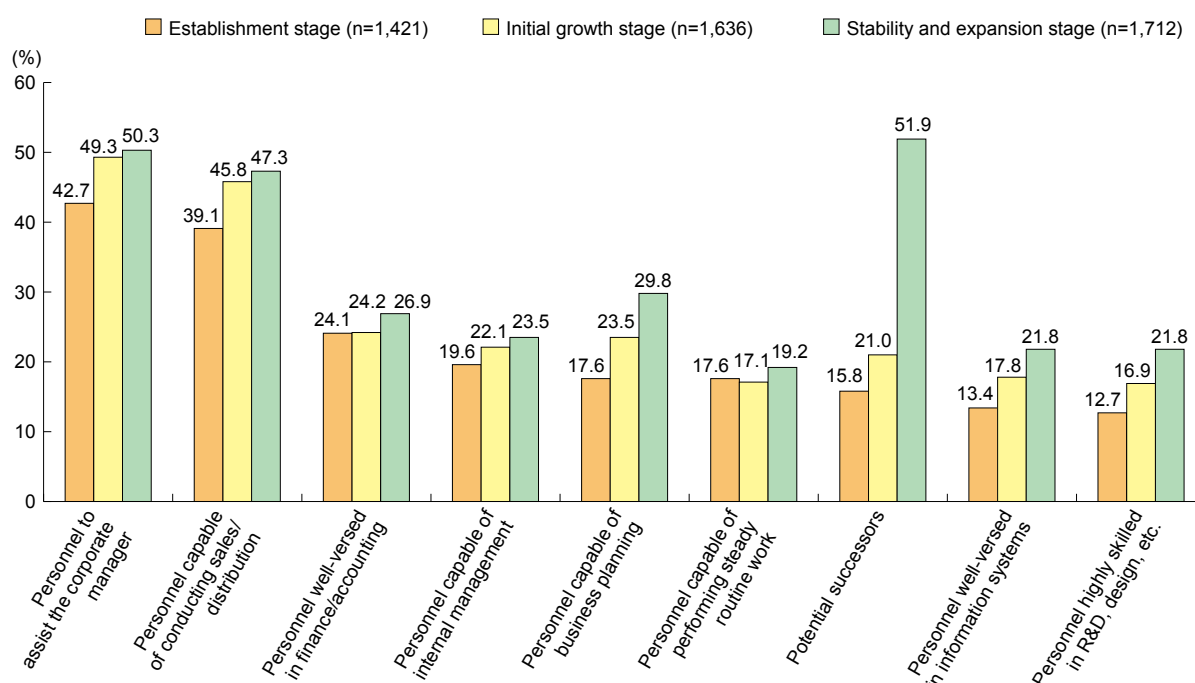
(7) In-house personnel required by sustainable growth enterprises in each growth stage

Next, we focus on personnel recruitment as an issue that was given by a high proportion of enterprises in the initial growth and stability and expansion stages, and consider the circumstances of the efforts made by sustainable growth enterprises to recruit personnel.

First, Fig. 2-1-58 shows the in-house personnel required by sustainable growth enterprises in each growth stage. This figure shows that, in the establishment stage, the response chosen by the highest proportion of respondents is “Personnel to assist the corporate manager”, followed by “Personnel capable of conducting sales/distribution” and then “Personnel well-versed in finance/accounting”.

The figure also shows that the proportions of enterprises needing staff of all kinds increase as the enterprises grow and mature, particularly with respect to “Potential successors”, which attracts the highest proportion of responses in the stability and expansion stage. This result implies that sustainable growth enterprises need personnel who can perform sales activities and assist the corporate manager in the establishment and initial growth stages because their business has yet to be profitable, but in the stability and expansion stage, they need personnel who are potential successors, because business settles down to a certain extent and they can calmly think about the enterprise’s future and about expanding the business in the future.

Fig. 2-1-58 In-house personnel required by sustainable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for sustainable growth enterprises who responded regarding in-house personnel that were or are necessary in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” category is presented here.

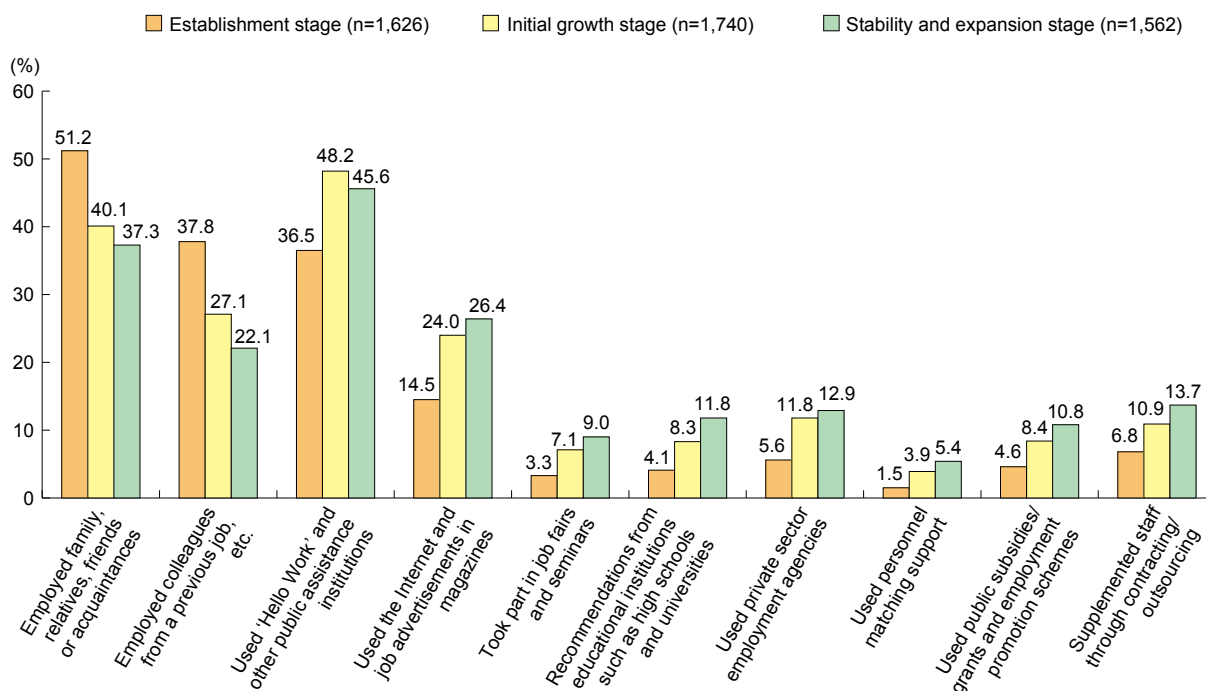
(8) Steps taken by sustainable growth enterprises to secure personnel in each growth stage

We also look at the personnel recruitment methods employed by sustainable growth enterprises in each growth stage, as shown in Fig. 2-1-59. The figure shows that the highest proportions in the establishment stage are for “Employed family, relatives, friends or acquaintances” followed by “Employed colleagues from a previous job, etc.” As enterprises advance through the growth stages, the proportions for “Employed family, relatives, friends or acquaintances” and “Employed colleagues from a previous job, etc.” decline, while the proportion of response for other measures, particularly “Used ‘Hello Work’ and other public assistance institutions” and “Used the Internet and job advertisements in magazines,” rise as

enterprises move through the growth stages.

It can be inferred from this result that sustainable growth enterprises start up their business by securing personnel from people around them, such as family, friends, colleagues from a previous job, and business partners in the establishment stage, but as they progress through the growth stages into the initial growth and stability and expansion stages, they strengthen their personnel acquisition by changing their methods of securing personnel, such as by utilizing diverse methods that include “Hello Work” and other public assistance institutions, Internet and job advertisements in magazines, and private sector employment agencies.

Fig. 2-1-59 Steps taken by sustainable growth enterprises to secure personnel in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

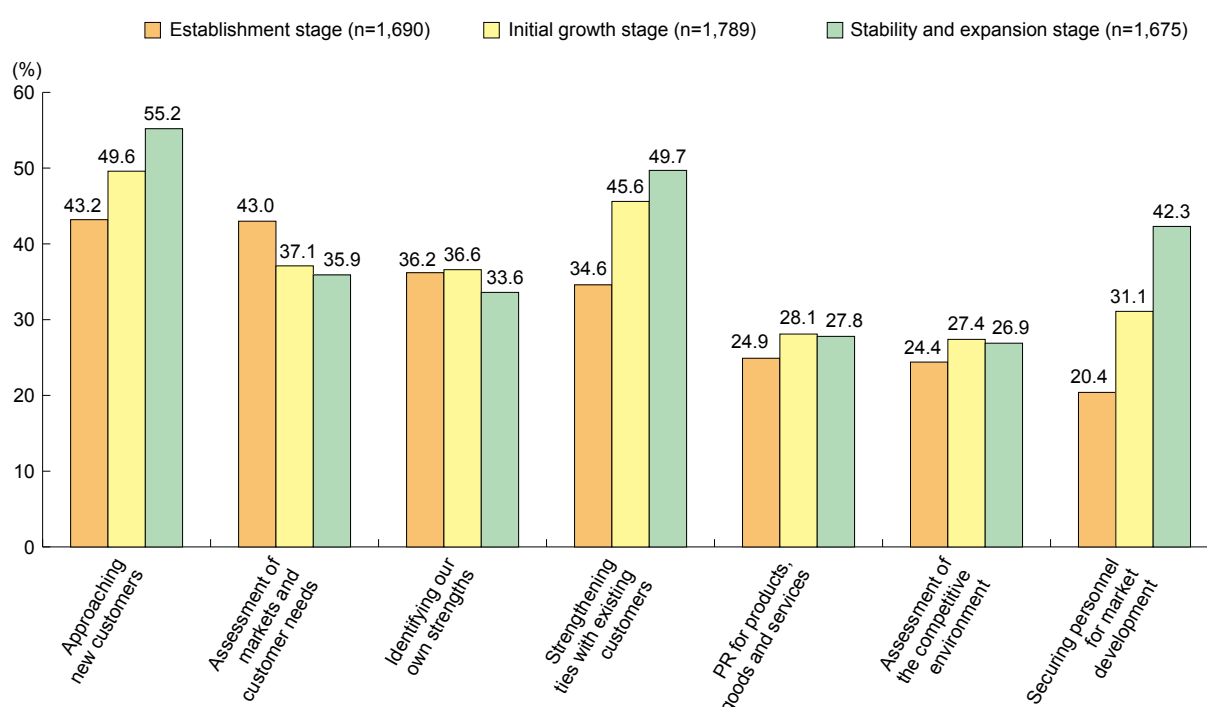
- Notes:
1. Totals are calculated for personnel recruitment methods that have been or are being employed by sustainable growth enterprises in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” responses are presented here.

(9) Issues with market development at each growth stage for sustainable growth enterprises

Next, we look at market development issues that are an issue for sustainable growth enterprises in all growth stages and the circumstances of their efforts. We begin by looking at the market development issues that sustainable growth enterprises face in each of the growth stages, as shown in Fig. 2-1-60. The figure shows that the highest proportion opted for “Approaching new customers” in the establishment stage, followed by “Assessment of markets and customer needs” and then “Identifying our own strengths”. We also see that the proportions for the

“Approaching new customers”, “Strengthening ties with existing customers” and “Securing personnel for market development” responses rise as enterprises progress through the growth stages. It can be inferred from this that sustainable growth enterprises that engage in market development attempt to approach new customers by assessing market and customer needs and ascertaining their strengths in the establishment stage. As they grow and mature, they not only focus on strengthening their approach to new customers and endeavor to retain existing customers, but also focus on securing personnel to ensure steady market development.

Fig. 2-1-60 Issues with market development at each growth stage for sustainable growth enterprises



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

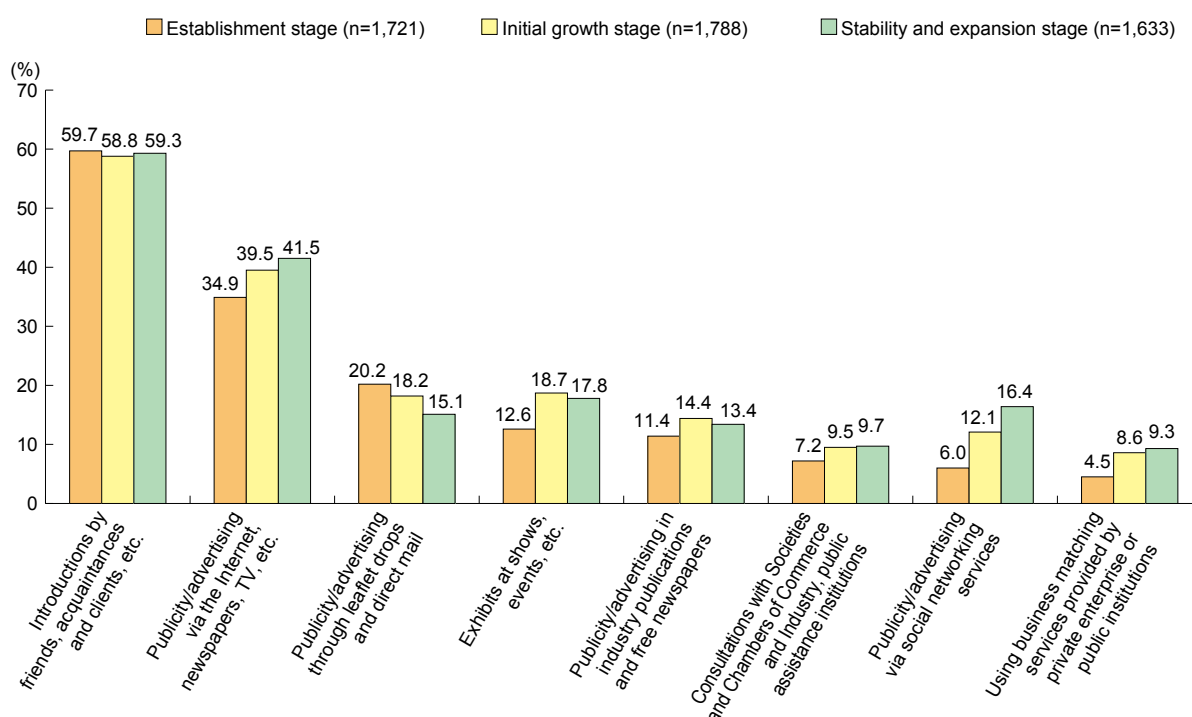
Notes: 1. Totals are calculated for sustainable growth enterprises who responded that they have had issues or are having issues with market development in each growth stage.
2. Total does not always equal 100% as multiple responses were possible.

(10) Market development efforts by sustainable growth enterprises in each growth stage

Below, Fig. 2-1-61 shows the methods used by sustainable growth enterprises to develop their markets in each growth stage. The figure shows that the highest proportion in all the growth stages was consistently for “Introductions by friends, acquaintances and clients, etc.”. It also shows that as enterprises advanced through the growth stages, the proportions who opted for “Publicity/advertising via the Internet, newspapers, TV, etc.” and “Publicity/advertising via social networking services”

rose. The proportions for efforts using “Publicity/advertising via the Internet, newspapers, TV, etc.” and “Publicity/advertising via social networking services” gradually rose as enterprises grew and matured, but “Introductions by friends, acquaintances and clients, etc.” consistently attracted the highest proportion of responses throughout all growth stages. This leads us to conclude that sustainable growth enterprises consistently use word of mouth as their principal market development method.

Fig. 2-1-61 Market development efforts by sustainable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for market development methods that have been or are being employed by sustainable growth enterprises in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” responses are presented here.

Case 2-1-6 Little Pianist

A company that developed the world's first shoes designed specifically for piano playing, and which is steadily expanding its performance via effective means of cultivating sales channels

Little Pianist, located in Ryugasaki City, Ibaraki Prefecture, designs, manufactures and markets the world's first shoes designed specifically for piano playing (the shoes are specially designed for working the pedals).

The company's representative, Mayumi Kurachi, was originally a full-time employee of a game development company, but after she married, she quit the company and devoted herself to child-raising. One day, she noticed that her child, while practicing for a piano competition, was having trouble using the piano pedals while wearing shoes. Ms. Kurachi searched via the Internet and other means for shoes designed specifically for playing the piano, but could not find any. A friend she spoke to about it suggested that if no-one was making this type of shoe, then Ms. Kurachi might be able to take out a patent. She therefore consulted with a patent attorney and set out to determine the heel shape and position that made it easiest to work the pedals. Ultimately, she was able to take a patent for shoes designed specifically for playing the piano. With this as her starting point, in 2014 Ms. Kurachi resolved to start a business designing, developing and marketing shoes for playing the piano, in order to benefit the many people who play the instrument, and set about doing so with single-minded determination. After starting her business, she sought a shoe factory that she could commission for the manufacture of her shoes, and began to create prototypes of commercial piano shoes that were also attractive. After a process of trial and error, Ms. Kurachi made further minor adjustments to the heel shape and position to make using the pedals easier, and developed a sole that communicated the sensation of depressing the pedals to the soles of the feet. She was successful in developing shoes that resolved the problems experienced by all players in playing the piano while wearing shoes. Despite all this, however, Ms. Kurachi had absolutely no knowledge, experience or knowhow in the area of managing a business. At a seminar organized by the Society of Commerce and Industry, she learned of the existence of the Yoroze Support Centers, and consulted with support centers in both Tokyo and Ibaraki Prefecture. The Yoroze Support Centers assisted her with all aspects of business procedures, including formulating business plans and procedures for applying for subsidies, and, on the production front, adjusting production details with the subcontractor, and on the sales front, examining contracts for commissioned sales and methods of advertising and conducting PR, and cultivating sales channels through actual stores. As a result, Ms. Kurachi established a business system, and her sales steadily increased.

Ms. Kurachi's experience of working for a game developer made her aware of the importance of promoting sales using videos, and she also possessed knowhow in the area of video creation. She created a promotional video using her shoes before they were brought to the market and three-dimensional computer graphics, and uploaded it to a video sharing site. The video caught the attention of a staff member of a television program production company, and the story was taken up on television. As a result, Ms. Kurachi commenced business with Japan's largest musical instrument retailer.

In the beginning, Ms. Kurachi only sold low-heeled piano shoes, but via social networking services, she became aware of the need among piano players and teachers for high-heeled shoes, and began the development of shoes with a 5cm heel, succeeding in creating a high-heeled piano shoe that combined functionality and beauty. In addition, a famous pianist became a user of the shoes, and brand recognition increased as the products came to be featured in music magazines and films, leading to a 2.4-fold year-on-year increase in sales.

With emphasis, Ms. Kurachi says, "My ability to start a company, and after this to steadily increase sales, was the result of support provided by Yoroze Support Centers. There are a range of types of support and support systems that one can use in starting a business in Japan. If you don't have any business experience, there are a lot of things that you don't know, and I think that people lose confidence and motivation, but the important thing is not to worry about it by yourself, but to consult with one of the support organizations around you."



Ms. Mayumi Kurachi, Little Pianist's Representative



The company's shoes, specially designed for playing the piano

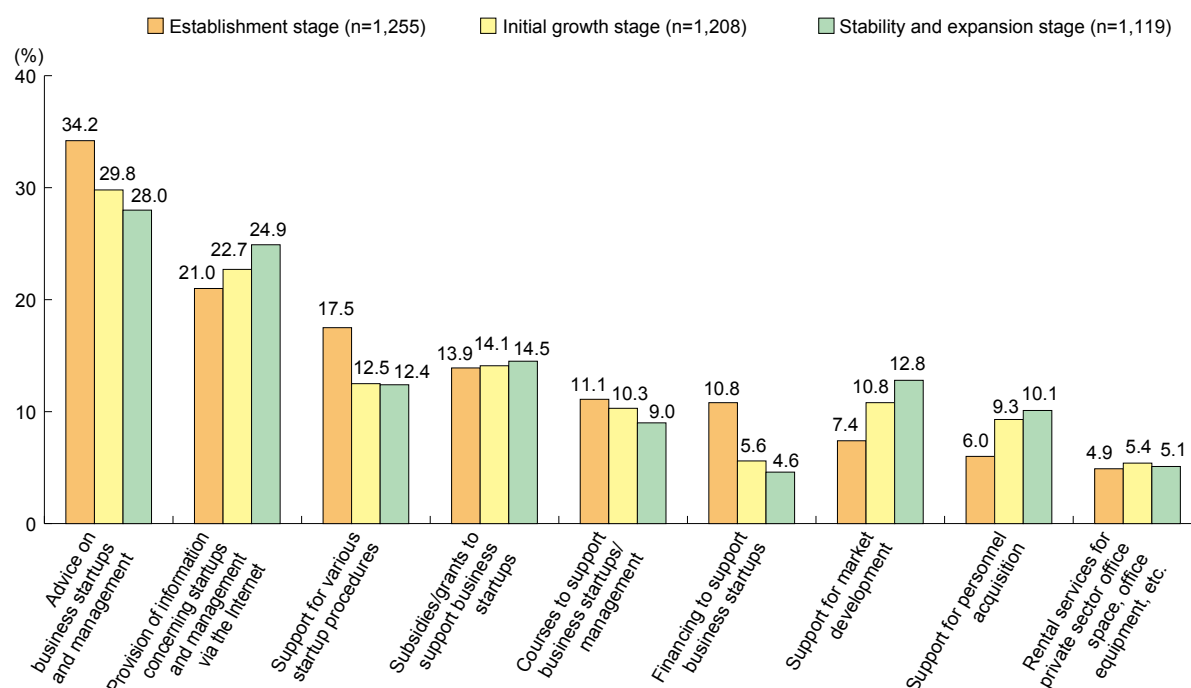
(11) Details of support policies used by sustainable growth enterprises in each growth stage

Finally, we look at the support and other policy measures that sustainable growth enterprises used in each of the growth stages (Fig. 2-1-62). The figure shows that the highest proportion in all growth stages went to “Advice on business startups and management”, followed by “Provision of information concerning startups and management via the Internet”. Also, the proportions for “Support for various startup procedures”, “Courses to support business startups/management” and “Financing to support business startups” were higher than for other growth types in the establishment stage, and those proportions declined as enterprises progressed through the growth stages. On the other hand, the proportion of responses for “Provision of information concerning startups and management via the Internet”, “Support for market development” and “Support for personnel acquisition” rose as the enterprises advanced in age.

These results indicate that in the establishment stage,

sustainable growth enterprises consult with associations and chambers of commerce and industry, “Yorozu” support centers, family members and corporate managers mainly about business startup and management. They also participate in business startup and management support schemes such as business establishment schools and startup and management seminars to learn about licensing procedures, business plan formulation procedures, and other such procedures, and utilize business establishment financing schemes of both private and governmental financial institutions. In the initial growth stage, they continue to consult others mainly about startup and management issues, but also gather information about startup and management from management support sites such as “Mirasapo” via the Internet. They also actively utilize market development support schemes such as trade fairs and exhibitions and Internet-based business matching services, and support schemes for securing personnel, such as personnel agencies and job cafes.

Fig. 2-1-62 Details of support policies used by sustainable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Notes: 1. The chart shows the nine items with the highest proportion of responses from sustainable growth enterprises in the establishment stage.
2. Total does not always equal 100% as multiple responses were possible.

Above, we focused on sustainable growth enterprises, looking at the issues they face in each growth stage and the efforts they make, as well as their use of support policies. It seems clear that, in order for enterprises to successfully grow to become sustainable growth

enterprises after startup, they need to implement measures to procure funding, recruit personnel and expand their markets in each growth stage, and they must also actively take advantage of the support policies on offer, as we saw earlier in Fig. 2-1-62.

Section 4 Summary

In this chapter, we conducted an analysis focusing on “business establishment and startup”. Specifically, we analyzed the processes by which business startups come about and confirmed that the issues that confront entrepreneurial hopefuls and people making startup preparations differ depending on their age and gender. We also confirmed that some entrepreneurs are not getting the support they need before starting up their businesses. We then showed that the issues faced after startup also vary depending on the growth stage, and that sustainable growth enterprises change their methods of fund procurement, securing personnel and market development according to each growth stage, but are not necessarily able to procure funds by their preferred method. It seems that it is important for all current entrepreneurial hopefuls or people making startup preparations to be aware of the types of support available for the issues that they face and that, by making use of that support, they can readily succeed in their business startups. In order for established

enterprises to achieve smooth growth once they have started up, it is also important that they be aware of their own issues and that they use the appropriate support policies.

By providing and administering an environment and support policies that will enable current entrepreneurial hopefuls and people making startup preparations who are already interested in starting up a business to readily launch a business, and one that will also allow established enterprises to succeed in growing after startup as they had intended, we are likely to increase the number of entrepreneurs in Japan who achieve steady and sustained growth. It is also likely that an increased number of entrepreneurs will result in more entrepreneurs being close to those people who are not currently interested in business startups, and that this will give rise to a virtuous cycle whereby those disinterested people develop an interest in business startups and become part of the future revitalization of business startups in Japan.

Chapter 2

Business succession

As the presidents of micro businesses get older, many presidents are having to deal with their own retirement and the succession of the next generation to their companies. While the presidents of some micro businesses plan on a business succession by a family member, executive, or employee, others plan to hand off to the next generation by undertaking a business transfer, sale, or integration (M&A) with a third party. Additionally, as Part I showed, there are some micro businesses that choose to close business given that their presidents are aging and finding a successor is difficult.

In this chapter, the concept of “business succession” is defined to include ordinary business succession as well as business transfer, sale, or integration (M&A) and business closure, and is analyzed accordingly. We will examine the state of preparation for business succession at micro businesses and the associated challenges, paying attention to differences by scale and whether the enterprise is a corporation or sole proprietorship.

Section 1 State of preparation for business succession and associated challenges

This section analyzes business succession at micro businesses. First, we will indicate the preparation processes necessary for business succession and give a summary of the actual state of preparation. Then, we will

separately consider the handover of management and the handover of assets and analyze the state of preparation and challenges with each of these.

1. Preparation processes necessary for business succession

In subsection 1 below, we look at the preparation processes necessary for business succession. First, we lay out the concepts and an overview of business succession,

and summarize the current state of business succession. Then, we look at perceptions of the need for business succession preparation and consider that preparation.

(1) Overview of business succession

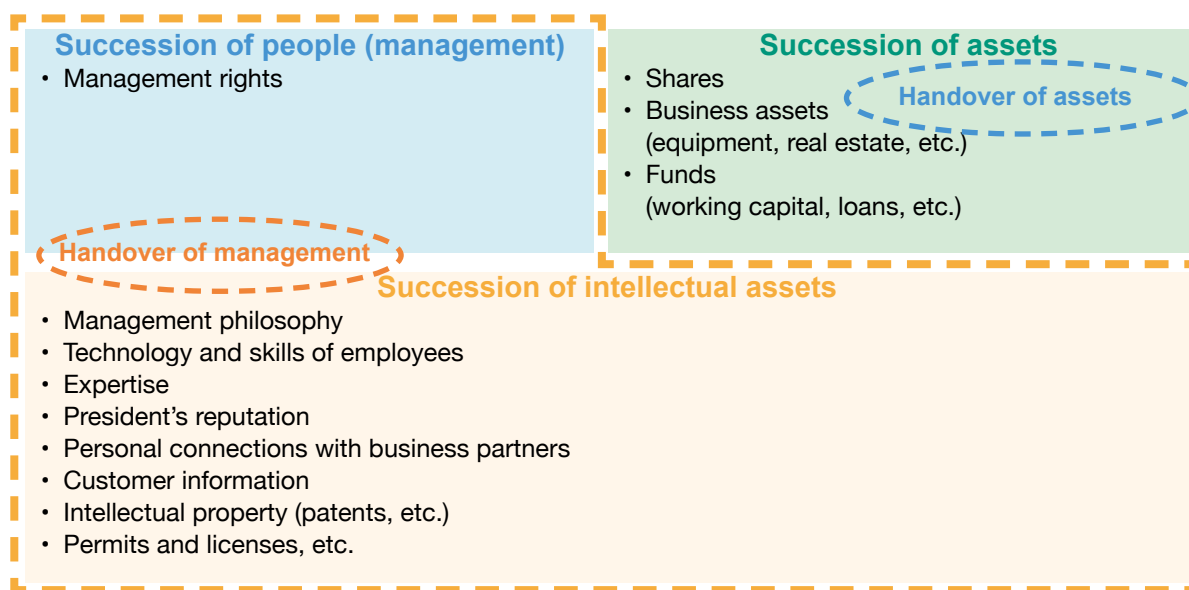
The phrase “business succession” does not have a precise definition, and the meaning varies depending on the person hearing it. For some, it means “securing a successor,” while for others it signifies a “problem of inheritance tax.” Therefore, we start here by laying out the concept of business succession. According to the Business Succession Guidelines¹⁾ established in 2016, business succession refers to a “succession” of the “business” itself. Business succession of this type has three components: people (management), assets, and intellectual assets (less-visible management resources and strengths) (Fig. 2-2-1). These are the components that the president cultivates in his or her business, and their smooth handover to the next generation is critical.

In this chapter, the “business” to be handed over to the next generation is broadly divided into “management” and “assets.” Thus, the handover of these is analyzed

respectively as “handover of management” and “handover of assets.”

Here, “handover of management” means taking over management in place of the current president and succeeding to the enterprise’s management philosophy, reputation, and other intellectual assets incidental to management. “Handover of assets” corresponds to the “succession of assets” in Fig. 2-2-1 and means succeeding to shares and business assets, especially those owned by the president. Among the reasons for analyzing these two types of handover separately, it is possible the person who takes over management is different from the person who takes over assets.²⁾ Moreover, a clear separation of the challenges of handover of management (selecting a successor, getting the successor’s consent, etc.) from the challenges of handover of assets (purchasing the assets, paying taxes, etc.) will allow for a deeper analysis.

Fig. 2-2-1 The components of business succession



1) The Business Succession Guidelines were established by SME Agency in December 2016 to stimulate business of SMEs by facilitating business successions in light of such factors as the aging of SME presidents.

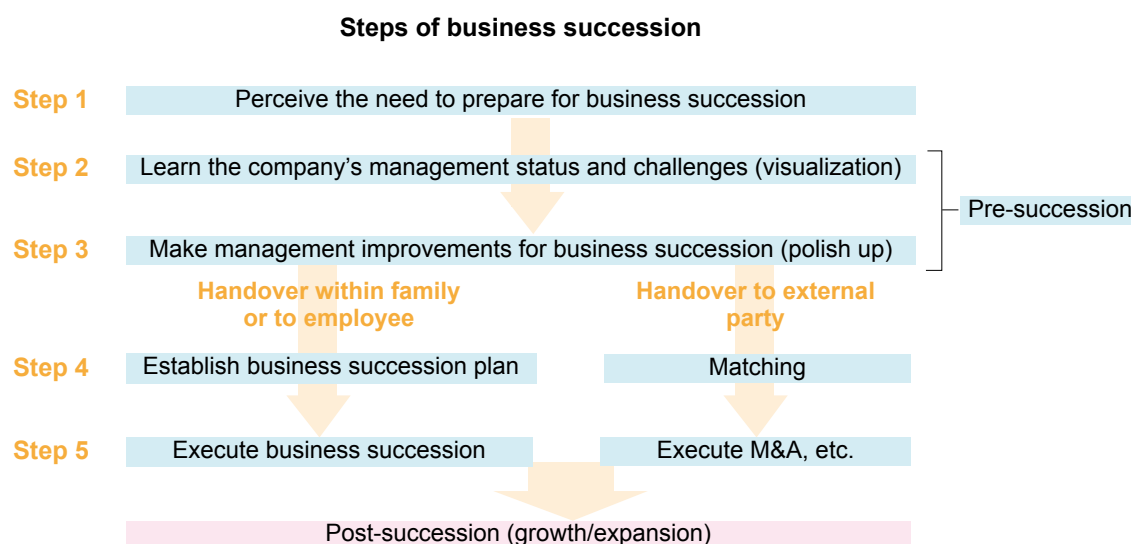
2) For example, the plan may be for the president’s child to take over management in future, but the child may be too young or for some other reason the enterprise may choose to entrust management temporarily to an employee, executive, or outside person (an intermediate president). In that case, the president’s child may succeed to shares or other assets, so that different people succeed to management and shares.

In addition, the Business Succession Guidelines mention three types of business succession: succession within family, succession by executive or employee, and handover to external party (M&A, etc.). In this chapter, cases that correspond to “handover to external party,” namely, a handover of business to someone outside the company (not a family member or an executive or employee) by means of transfer or sale of business is referred to as “business transfer, sale, or integration (M&A).” These cases, which are not included under “business succession” in this chapter, are separately analyzed in Section 2.

The handover of a business is one of the greatest milestones that micro businesses will experience after their founding. A key point of the recently established Business

Succession Guidelines is five steps explaining the process of preparation necessary for this business succession to go smoothly (Fig. 2-2-2). First, the president perceives the need to prepare for business succession early on. The president then learns the company’s management status and challenges and makes management improvements accordingly. Next, if the person taking over the enterprise is a family member or employee, a business succession plan is established and the new president takes over management and assets. Or, if an external party is taking over, a process of matching is done to select that party, then if that party agrees, an M&A happens. Performing these five steps is pointed out as important to ensuring a smooth business succession.

Fig. 2-2-2 Steps of business succession



We will look at what is involved in each of these steps, but in the subsection 2 and thereafter, steps 4 and 5 will be divided into “handover of management,” “handover of assets,” and “business transfer, sale, or integration (M&A).” In this part, we look in detail at steps 1–3, which are common to all business successions.

First, handing over management and assets to the successor takes time, so to “perceive the need to prepare for business succession” as in step 1 means that the president perceives the need for preparation early on and thus needs to start that preparation. The Business Succession Guidelines point out that it is important for national and local governments and support organizations to prompt presidents approaching the age of 60 to prepare for succession.

Step 2, which is to “learn the company’s management status and challenges (visualization),” is broken down into learning the company’s management status and learning its business succession challenges. Efforts to promote visualization of the company’s management status include clarifying the relationship between company and individual in terms of assets, processing account settlements in an appropriate manner, practicing

inventory control and control over management of department-specific profit or loss, and learning the company’s strengths with “local benchmarks.”³⁾ Some of the challenges of business succession are confirming whether there is a candidate successor, the relationship of the candidate successor to shareholders within family and to business partners, specifying what assets will be inherited, and calculating taxes. These will be analyzed in detail starting in subsection 2.

Step 3, which is to “make management improvements for business succession (polish up),” is an effort to make management improvements so the current president can hand over the business to the successor in good condition. Examples include building the competitiveness of the core business, putting internal organizations in place, disposing of unneeded assets and accumulated inventory, learning the company’s financial condition and efforts to disclose it to external parties, and rehabilitating enterprises that are performing poorly.

These “perceptions of the need for business succession preparation” and “business succession preparation” will be discussed later in light of questionnaire results.

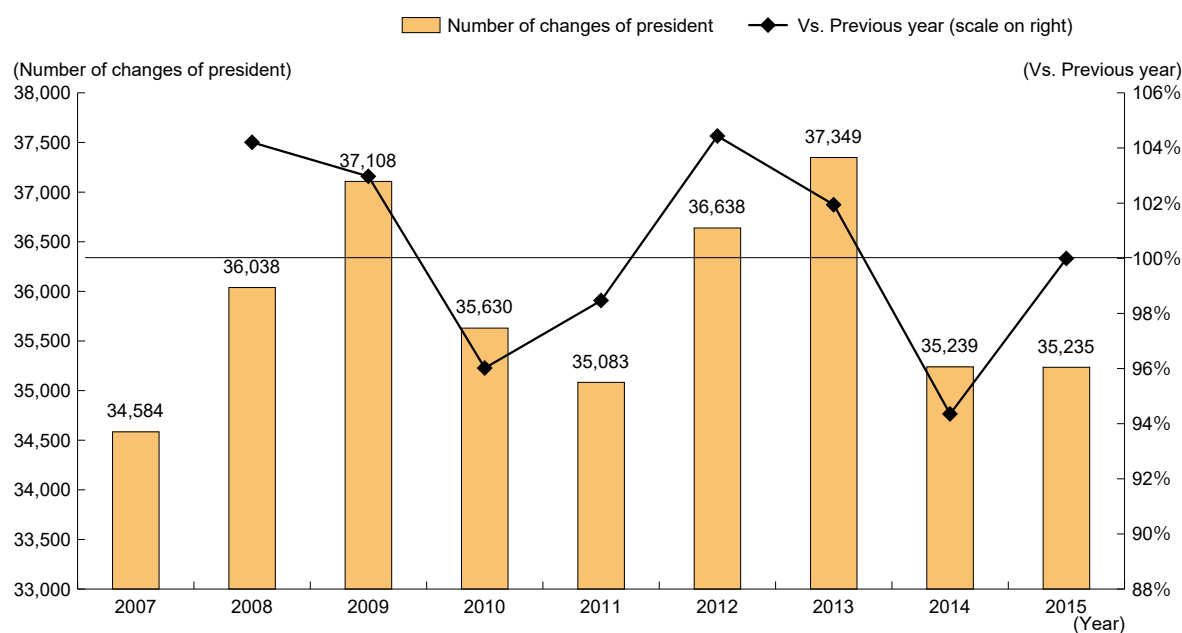
3) Local benchmarks are a tool for conducting so-called “enterprise health checkups.” They were created to enable enterprise presidents, financial institutions, support organizations, and the like to have conversations about management from the same standpoint. They consist specifically of data on “financial information” (six indexes) and data on “non-financial information” (four perspectives). The “financial information” (six indexes) includes (1) rate of increase in sales, (2) operating profit margin, (3) labor productivity, (4) ratio of EBITDA (earnings before interest, taxes, depreciation, and amortization) to interest-bearing debts, (5) working capital turnover period, and (6) capital adequacy ratio. The “non-financial information” (four perspectives) includes (1) focus on presidents, (2) focus on parties concerned, (3) focus on business, and (4) focus on internal control systems.

(2) Current state of business succession

First, we look at the current state of business succession. There is no statistical data that captures an image of business succession in general, so our discussion here starts by looking at successions of presidents. A look at the trends in number of changes of president⁴⁾ in Fig.

2-2-3, which is based on enterprise data from Tokyo Shoko Research, Ltd., shows that since 2007, there have generally been about 35,000 changes annually, a level that has stayed flat. The trends do not indicate any increase in the number of changes of president even as the age of presidents has risen.

Fig. 2-2-3 Number of changes of president



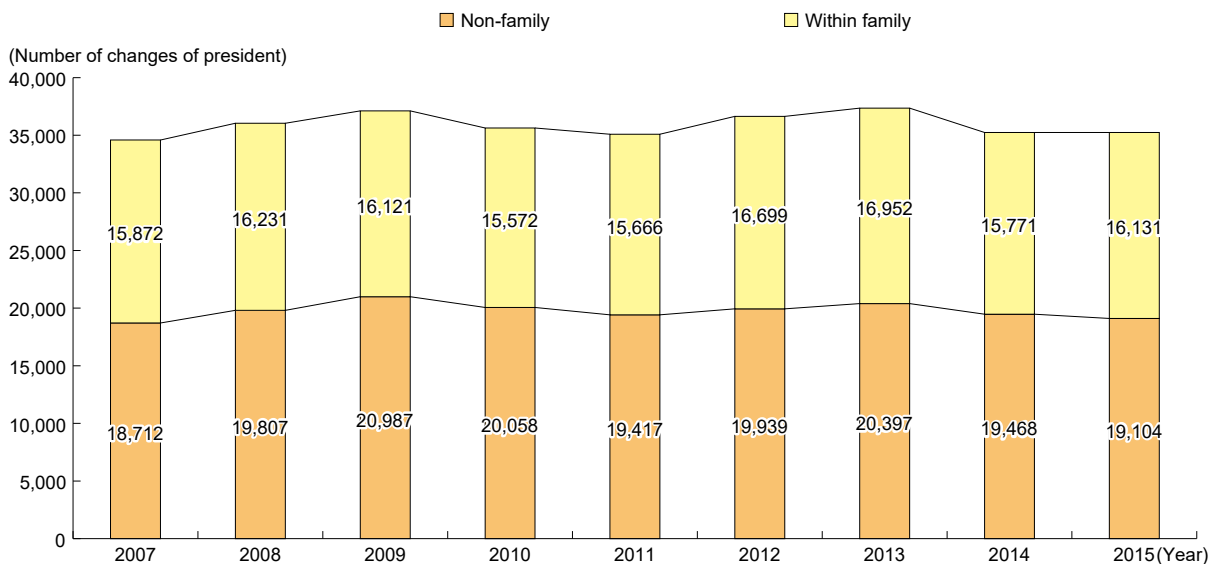
Source: Tokyo Shoko Research, Ltd.

4) The full names and dates of birth were used to determine when a change of president has happened. A change is recognized as occurring when the president has a different full name and date of birth than the president the year before.

Similarly, Fig. 2-2-4 shows the number of changes of president, categorized by whether there is a family relationship between the old and new presidents. Looking at the trends since 2007, it is not the case that there has been

an increase in the number of non-family successions,⁵⁾ but they are still more numerous than successions within family, making up more than 50%. Thus, non-family succession has become common even at SMEs.

Fig. 2-2-4 Trends in non-family successions



Source: Tokyo Shoko Research, Ltd.

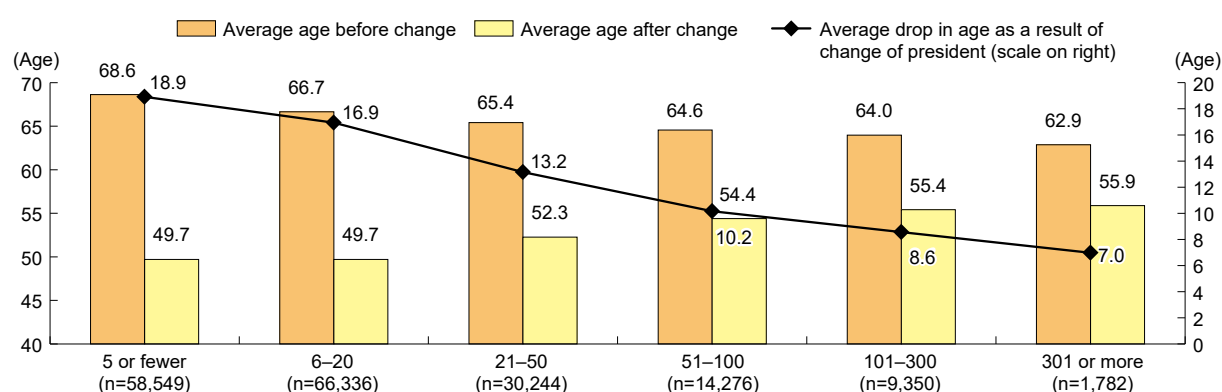
- Notes:
1. Data covers SMEs contained in enterprise database belonging to Tokyo Shoko Research, Ltd. that were known to be active as of December 2015 and changed presidents at least once between 2006 and 2015.
 2. Here, "succession within family" aggregates enterprises that replaced president with a person with the same surname but different date of birth. Here, "non-family succession" aggregates enterprises that replaced president with a person with a different surname and different date of birth. Therefore, if the president was replaced with a family member with a different surname, that is counted as non-family succession, but if the president's surname changed because of marriage, etc., it is not counted in either group.

5) The 2014 White Paper on Small and Medium Enterprises in Japan looked at the trends over a longer span, starting in 1988, and found that non-family successions were increasing.

Next, we look at the actual conditions of changes of president at SMEs. First, we consider the average age of the president before and after change. Fig. 2-2-5 looks at the average age of the enterprise's president before and after the change, based on number of employees. The president's age before the change tends to be higher the smaller the number of employees, and the age tends to

be lower the greater the number of employees. On the other hand, the president's age after the change tends to be lower the smaller the number of employees, and higher the greater the number of employees. This means that the average drop in age as a result of change of president is smaller the greater the number of employees.

Fig. 2-2-5 Change in average age of president as a result of change of president (by number of employees)



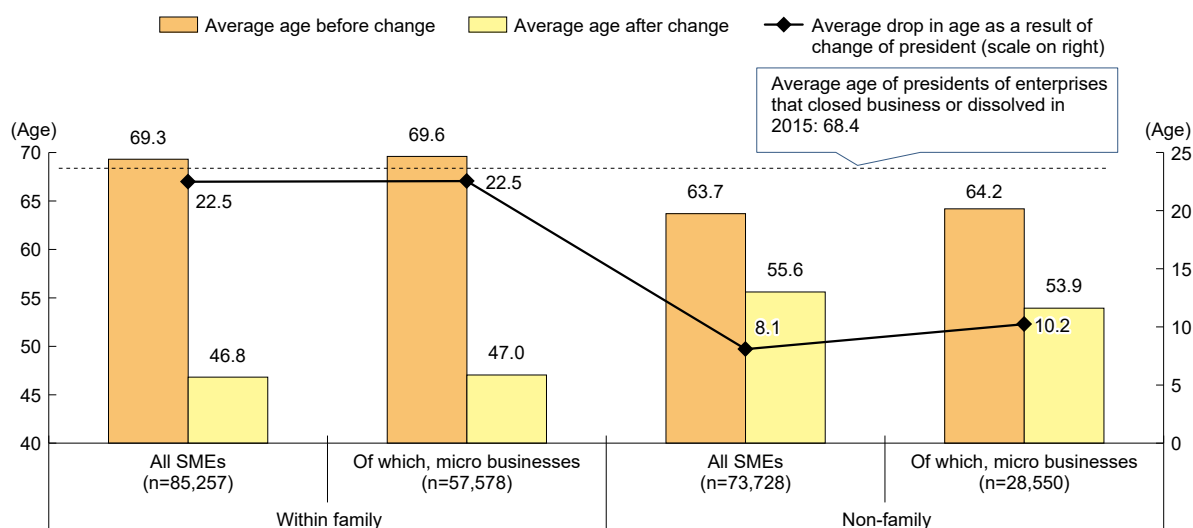
Source: Tokyo Shoko Research, Ltd.

Note: Data covers SMEs contained in enterprise database belonging to Tokyo Shoko Research, Ltd. that were known to be active as of December 2015 and changed presidents at least once between 2006 and 2015.

Next, we focus on similar data based on whether the new president comes from within the family or not (Fig. 2-2-6). When the change is within the family, the president's average age before the change is high, at 69.3, leading to a drop of more than 20 years in age because of the change. On the other hand, when the change is to non-family, the president's average age before the change is younger, at 63.7, while the new president is 55.6 years

old on average, older than the case of change within the family. The president's average age at enterprises that closed business or dissolved is 68.4, which is close to the 69.3 average age of presidents before change at enterprises where succession was within family. Thus, it is conjectured that the age of about 68–69 is the right time for presidents to retire. This figure offers one guideline for the process of business succession.

Fig. 2-2-6 Average change of president's age as a result of change of president (within family/non-family)



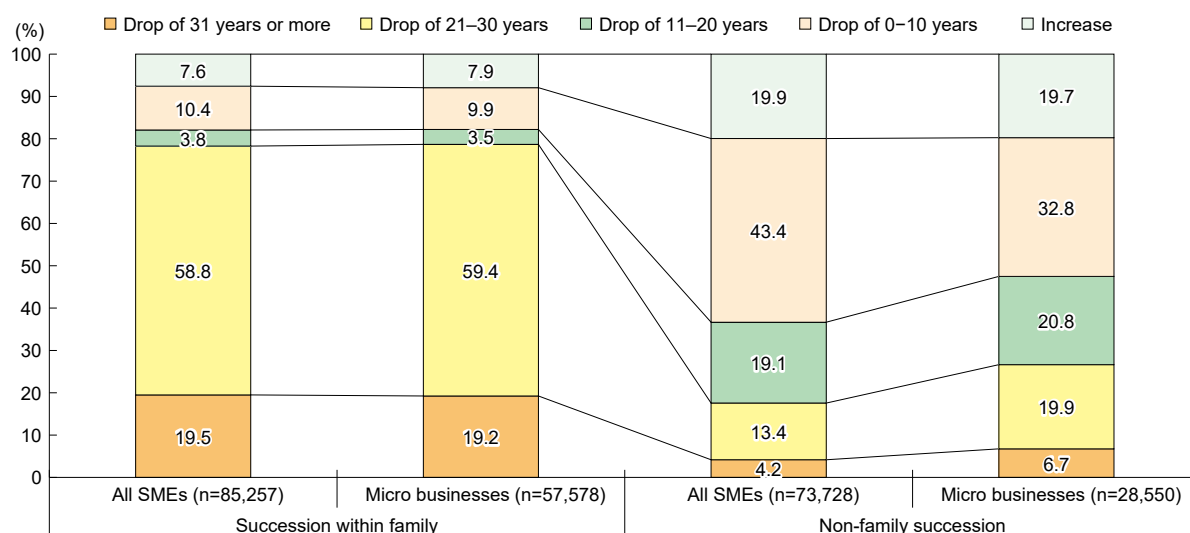
Source: Tokyo Shoko Research, Ltd.

- Notes:
1. Data covers SMEs contained in enterprise database belonging to Tokyo Shoko Research, Ltd. that were known to be active as of December 2015 and changed presidents at least once between 2006 and 2015.
 2. Here, "succession within family" aggregates enterprises that replaced president with a person with the same surname but different date of birth. Here, "non-family succession" aggregates enterprises that replaced president with a person with a different surname and different date of birth. Therefore, if the president was replaced with a family member with a different surname, that is counted as non-family succession, but if the president's surname changed because of marriage, etc., it is not counted in either group.
 3. The average age of presidents of enterprises that closed business or dissolved in 2015 covers 16,049 SMEs for which the president's date of birth was known.

Fig. 2-2-7 looks at the distribution of change of president's age as a result of change of president based on whether the new president is within family or non-family. Among successions within family, the percentage is highest for "drop of 21–30 years." This is largely seen as making the leadership of the enterprise one generation

younger, which is conjectured to mean succession by a child, etc. On the other hand, among non-family successions, the percentage is highest for "drop of 0–10 years." This is taken as a succession to someone from roughly the same generation or a little younger.

Fig. 2-2-7 Distribution of change of president's age as a result of change of president (within family/non-family)



Source: Tokyo Shoko Research, Ltd.

- Notes:
1. Data covers micro businesses contained in enterprise database belonging to Tokyo Shoko Research, Ltd. that were known to be active as of December 2015 and changed presidents at least once between 2006 and 2015.
 2. Here, "succession within family" aggregates enterprises that replaced president with a person with the same surname but different date of birth. Here, "non-family succession" aggregates enterprises that replaced president with a person with a different surname and different date of birth. Therefore, if the president was replaced with a family member with a different surname, that is counted as non-family succession, but if the president's surname changed because of marriage, etc., it is not counted in either group.

In light of the above, in the case of succession within family, there is a tendency for the age of the president to be high prior to the change and lower after the change, so the enterprise is changing to a younger president. In the case of non-family succession, on the other hand, the change is largely to a president of the same generation. To look at it another way, we can view the average age gap between presidents before and after the change as the period in which the president is in office. If we do that, it means that in cases of non-family succession, not very much time elapses before changes of presidents, and it is important for the enterprise to be constantly fostering someone to be the successor.

Up to this point, we have summarized the current state of president succession based on enterprise data from

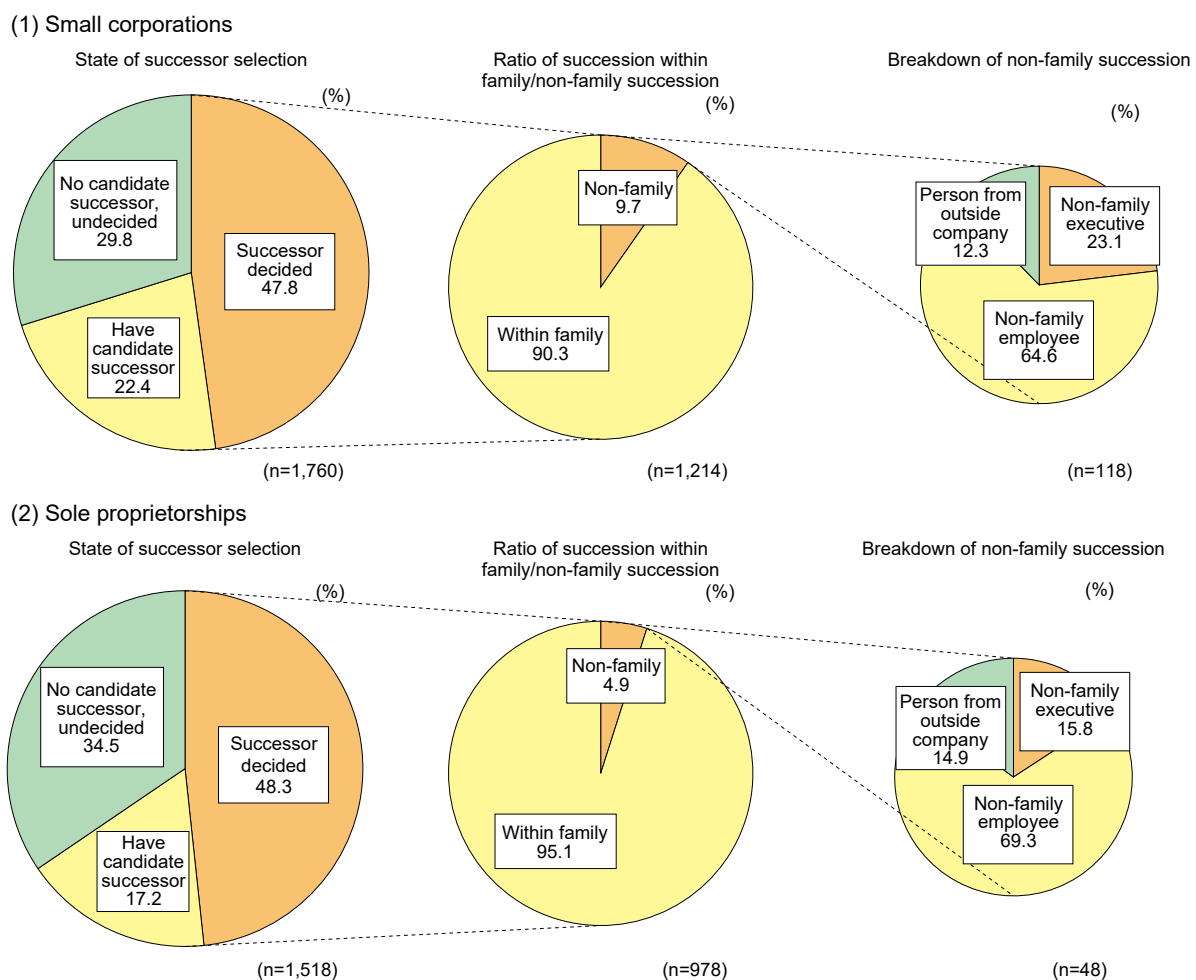
Tokyo Shoko Research, Ltd. From this point forward, we will consider what kinds of challenges micro businesses see in securing successors and what efforts they are making to address them. We will analyze business succession at micro businesses based on the "Questionnaire Survey on Enterprise Management Continuity"⁶⁾ (below, "questionnaire survey"). This questionnaire survey covered mainly micro businesses with a president age 50 or older. Note that the circumstances of business succession may vary considerably based on the form of organization, i.e., whether the enterprise is a corporation or sole proprietorship. To make the subjects of comparison clearer, enterprises will be called "small corporations," or "sole proprietorships" in the rest of this chapter.

6) Commissioned by the SME Agency, Tokyo Shoko Research, Ltd. conducted a questionnaire survey of 15,000 SMEs in November 2016 (with a response rate of 28.7%) as well as an online questionnaire survey of micro businesses that are members of the Central Federation of Societies of Commerce and Industry or a chamber of commerce and industry (getting 3,984 valid responses).

Fig. 2-2-8 shows the state of successor selection, ratio of succession within family/non-family succession, and breakdown of cases of non-family succession for presidents of micro businesses. Approximately half of enterprises have decided on a successor, both at small corporations and sole proprietorships. These, combined with enterprises with a candidate successor, make up about 70% of the total. Categorizing these successors/candidate successors as within family or non-family, we find that the successor or candidate successor is non-

family at 9.7% of small corporations and 4.9% of sole proprietorships. This tells us that non-family succession is still not a prominent choice among micro businesses. Breaking down the cases of non-family succession, the most common choice was “non-family employee,” which was the choice of 64.6% of small corporations and 69.3% of sole proprietorships. Combining these with enterprises that chose a “non-family executive,” internal personnel became president in the majority of cases.

Fig. 2-2-8 State of successor selection and current state of non-family succession (small corporations and sole proprietorships)



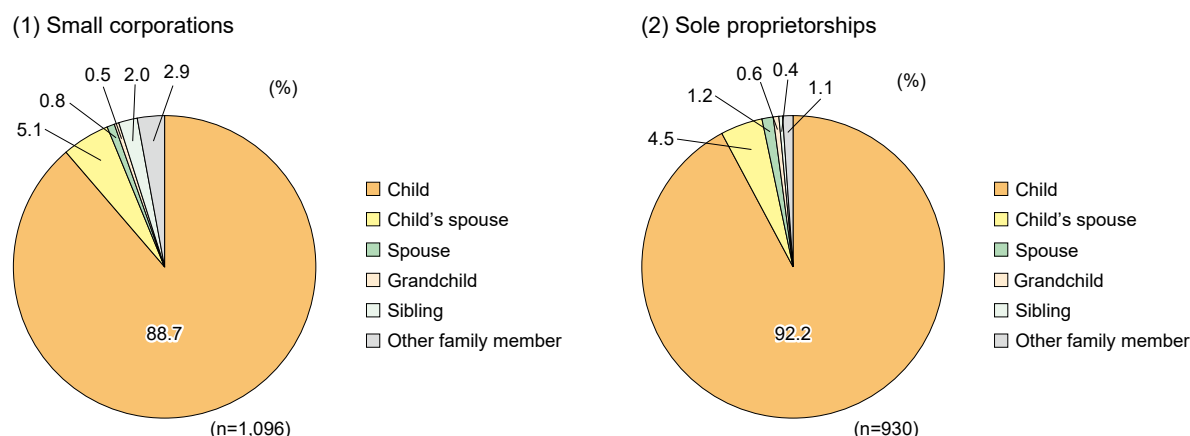
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregated figures are exclusive of those that answered, “intend to close business during my generation.”
 2. Aggregated figures are exclusive of those that answered, “other” regarding successor or candidate successor.
 3. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor.

Next, Fig. 2-2-9 breaks down succession within family at micro businesses. The percentage selecting a “child” as successor or candidate successor was 88.7% at small

corporations and 92.2% at sole proprietorships. This shows that succession from parent to child is still the most prominent choice.

Fig. 2-2-9 Breakdown of successions within family (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.

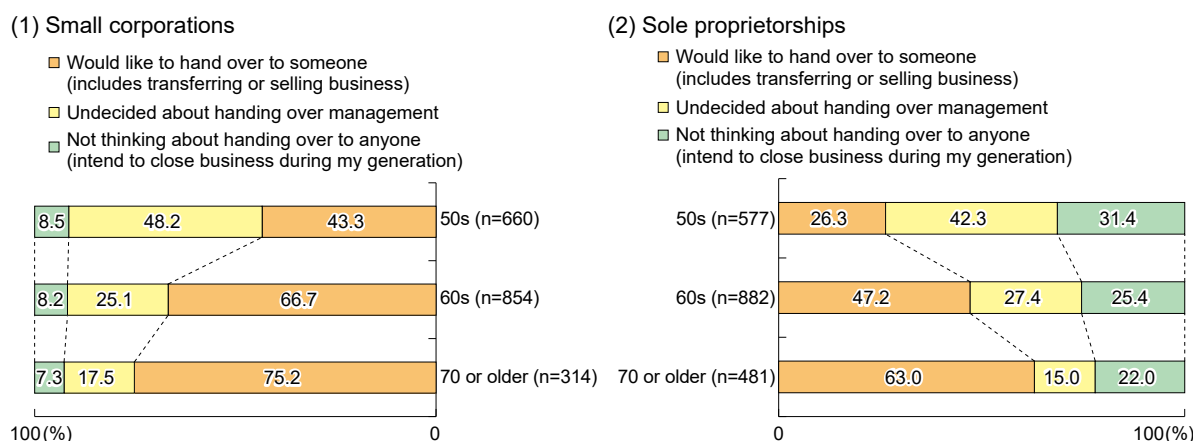
(3) Perceiving the need to prepare for business succession

Starting here, we overview the steps before business succession, given the results of the questionnaire survey as preconditions. As the Business Succession Guidelines pointed out, the first step is to “perceive the need to prepare for business succession.” It is very important that the president perceive this.

Fig. 2-2-10 shows the inclination of presidents to business succession, based on the president’s age.

Overall, a lower percentage of sole proprietorships than small corporations said they “would like to hand over to someone.” At sole proprietorships, the younger the business owner, the stronger the inclination to close the business, but as the age of the president rises, the greater the percentage that said they “would like to hand over to someone.” Among presidents age 70 or older, 75.2% at small corporations and 63.0% at sole proprietorships said they would like to hand management over to someone.

Fig. 2-2-10 Inclination of presidents to business succession, based on their age (small corporations and sole proprietorships)

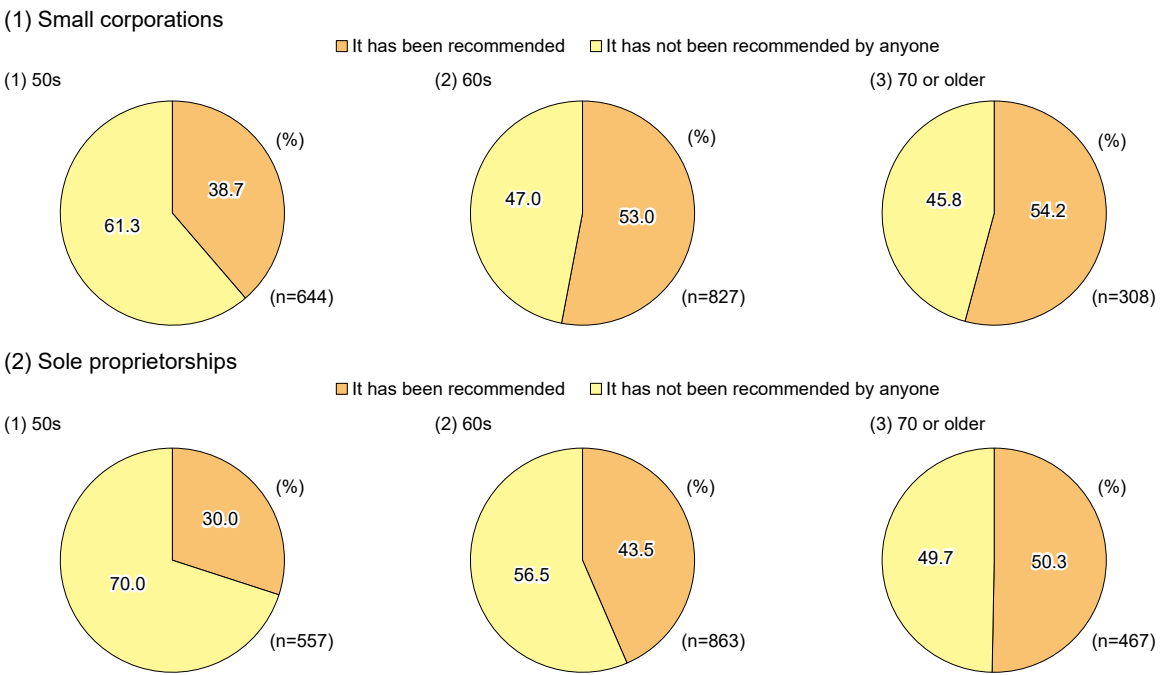


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-11 considers the percentage of presidents at micro businesses that were recommended by someone around them to prepare to hand over management and assets, based on the president's age. In enterprises at both scales, as the president's age rises, the higher the

percentage that had been recommended to prepare. For those age 70 or older, however, the percentage at sole proprietorships was only about 50%, while at small corporations the figure was no more than 54.2%.

Fig. 2-2-11 Percentage of presidents that were recommended to prepare to hand over management and assets, based on the president's age (small corporations and sole proprietorships)



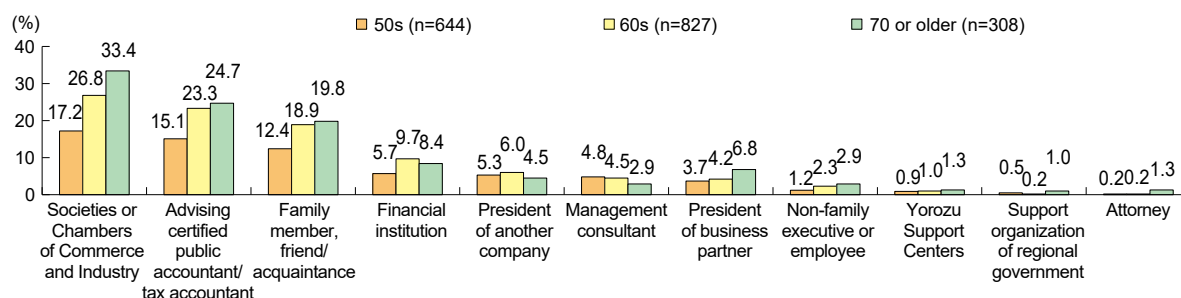
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-12 considers who recommended preparing to hand over management and assets at micro businesses, based on the president's age. At micro businesses, the most common answer was "societies or chambers of commerce and industry."⁷⁾ At small corporations, that answer was

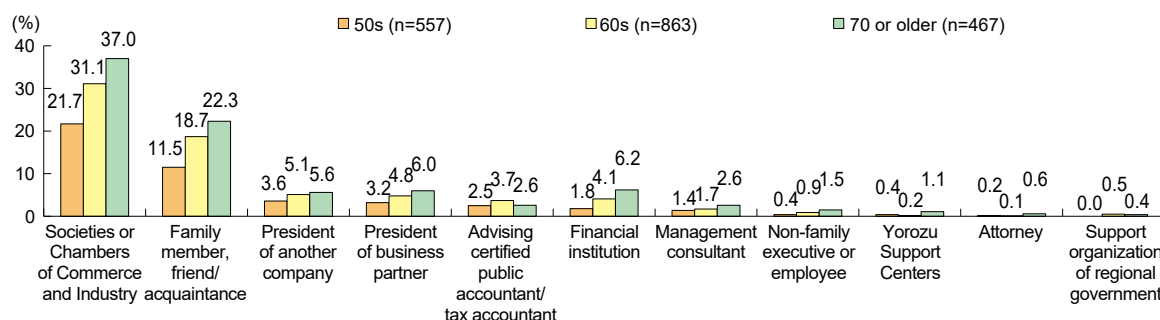
followed by "advising certified public accountant/tax accountant" and "family member, friend/acquaintance," whereas at sole proprietorships, the next most common answers were "family member, friend/acquaintance" and "president of another company."

Fig. 2-2-12 Who recommended to prepare to hand over management and assets, based on the president's age (small corporations and sole proprietorships)

(1) Small corporations



(2) Sole proprietorships



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, "management consultant" includes SME consultants, judicial scriveners, and administrative scriveners.
 3. The items "other" and "it has not been recommended by anyone" are not shown.

In light of the above, many presidents of micro businesses "would like to hand [their businesses] over to someone," and encouragement from people around them is an important trigger for them to start preparing early to hand over management and assets. The percentage of presidents who have been recommended to do so by

those around them rises the greater the president's age, but support organizations like societies or chambers of commerce and industry need to start encouraging presidents at an earlier time for micro businesses, to ensure a smooth business handover.

7) Caution should be taken concerning the survey of micro businesses, as it was given specifically to members of the Central Federation of Societies of Commerce and Industry or a chamber of commerce and industry.

(4) Preparing for business succession (1) “Clarifying the relationship between company and president/family members in terms of assets”

This part discusses clarifying the relationship between company and president/family members in terms of assets. Funds procurement is fundamental to the existence of a company and its business. Ideally, an enterprise should not have to depend on the personal assets of the president or the president’s family members. Releasing the personal assets of the president and president’s family members from collateral and providing substitutes for those assets, and releasing the president and president’s family members from their personal guarantees are some of the things that need to be reconsidered to hand a company and its business over to the next generation. Below, we look at the current state of the use of personal

assets as collateral and the use of presidents’ guarantees, as based on questionnaire survey results.

First, we look at the state of providing collateral. When procuring funds, the principle of collateral is to offer some asset that has a business use. It would seem that micro businesses, however, offer personal assets without a business use as collateral because of the limitations they face in procuring funds. Fig. 2-2-13 looks at the percentage of enterprises at which the president or president’s family members provide personal assets exclusive of business assets as collateral, by form of organization. The percentage providing personal assets other than business assets as collateral is 40.7% at small corporations, and 22.5% at sole proprietorships. The percentage of small corporations providing their financial institutions with personal assets other than business assets to procure funds is high.

Fig. 2-2-13 Percentage of enterprises at which the president or president’s family members provide personal assets exclusive of business assets as collateral (small corporations and sole proprietorships)

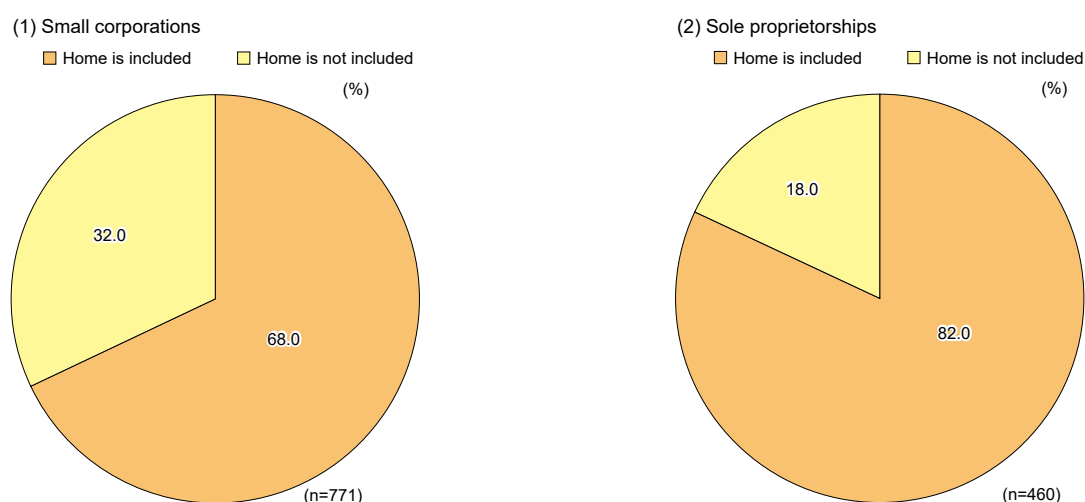


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-14 looks at the percentage of those enterprises providing personal assets exclusive of business assets as collateral where that collateral includes the person's home, by form of organization. About 80% of sole proprietorships provide a home as collateral, while about

70% of small corporations do so. At sole proprietorships, where the business is strongly identified with the president personally, the percentage that include their homes with collateral is very high.

Fig. 2-2-14 Percentage of enterprises where personal assets provided as collateral by president or family member includes the person's home (small corporations and sole proprietorships)



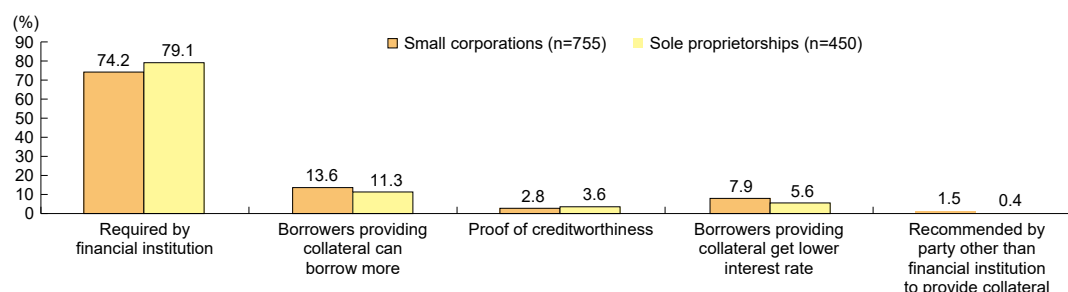
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "providing collateral" regarding providing personal assets owned by president and/or president's family as collateral.

Fig. 2-2-15 looks at the reasons why personal assets are provided as collateral, by form of organization. The most common answer was "required by financial institution," while other answers included "borrowers

providing collateral can borrow more" and "borrowers providing collateral get lower interest rate." Thus, it appears that personal assets are provided as collateral in order to procure funds.

Fig. 2-2-15 Reasons why the president or president's family members provide personal assets as collateral (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

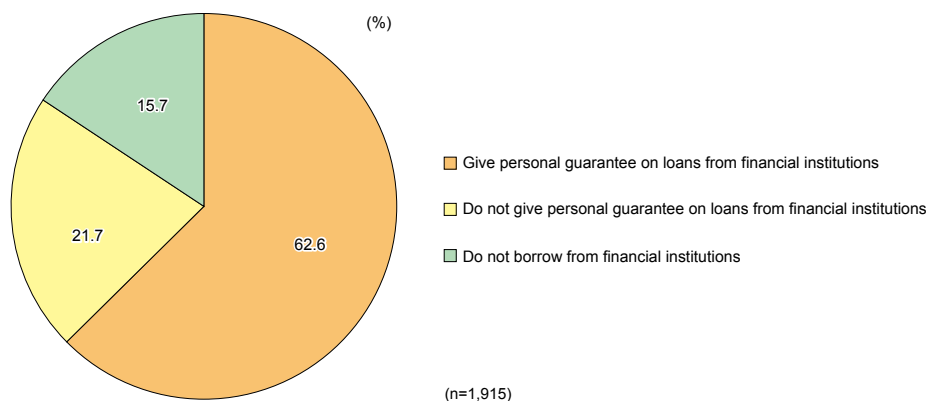
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates those that answered, "providing collateral" regarding providing personal assets owned by president and/or president's family as collateral.

Next, we look at the situation with personal guarantees on loans from financial institutions.

First, Fig. 2-2-16 considers the situation with personal guarantees based on small corporation. The percentage

saying that they “give personal guarantee on loans from financial institutions” was 62.6% for small corporations. Therefore, there are many small corporations with loans that use personal guarantees.

Fig. 2-2-16 Situation with personal guarantees (small corporations)

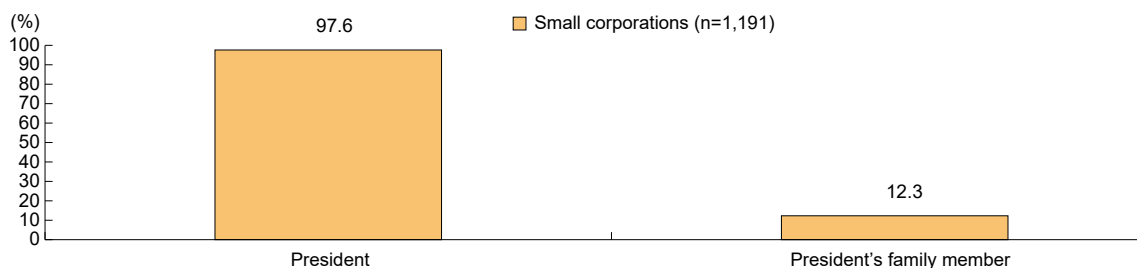


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-17 considers the person that gives a personal guarantee at small corporation. In the majority of cases, it is the president that gives a personal guarantee on

loans, though in some cases it is a family member of the president.

Fig. 2-2-17 Person that gives personal guarantee (small corporations)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered “give personal guarantee on loans from financial institutions” regarding personal guarantees on loans from financial institutions.
 3. Those that answered “executive or employee other than president or family member” and “other” are not shown.

Personal guarantees by the president facilitate funds procurement by imposing rules upon company management and supplementing the company's credit. Some point out, though, that such guarantees can interfere with the enterprise's dynamism, such as when the president wants to develop the business in a bold way, when a business is trying to rehabilitate quickly, or

when it is trying to effect a smooth business succession. Given those facts, the "Guideline for Personal Guarantees Provided by Business Owners"⁸⁾ (below, "Business Owners' Guarantee Guideline") was established in December 2013 and put in operation in February 2014 to promote financing independent of personal guarantees by presidents.

[Reference] Key points of "Guideline for Personal Guarantees Provided by Business Owners"

- (1) If certain conditions are met, for example, the roles of the corporation and the president are clearly separated, financial institutions shall not require the president's personal guarantee and shall consider appropriately reviewing and revising any existing guarantee contracts.
- (2) If the estimate of funds that can be recovered increases as a result of starting business rehabilitation, etc., early, financial institutions shall consider including free assets (¥990,000), and in addition an amount equivalent to living expenses for a certain period, homes that are not extravagant, etc., among the guarantor's residual assets.
- (3) Balances on guarantee obligations that cannot be fully paid back when fulfilling a guarantee obligation shall in principle be exempted.

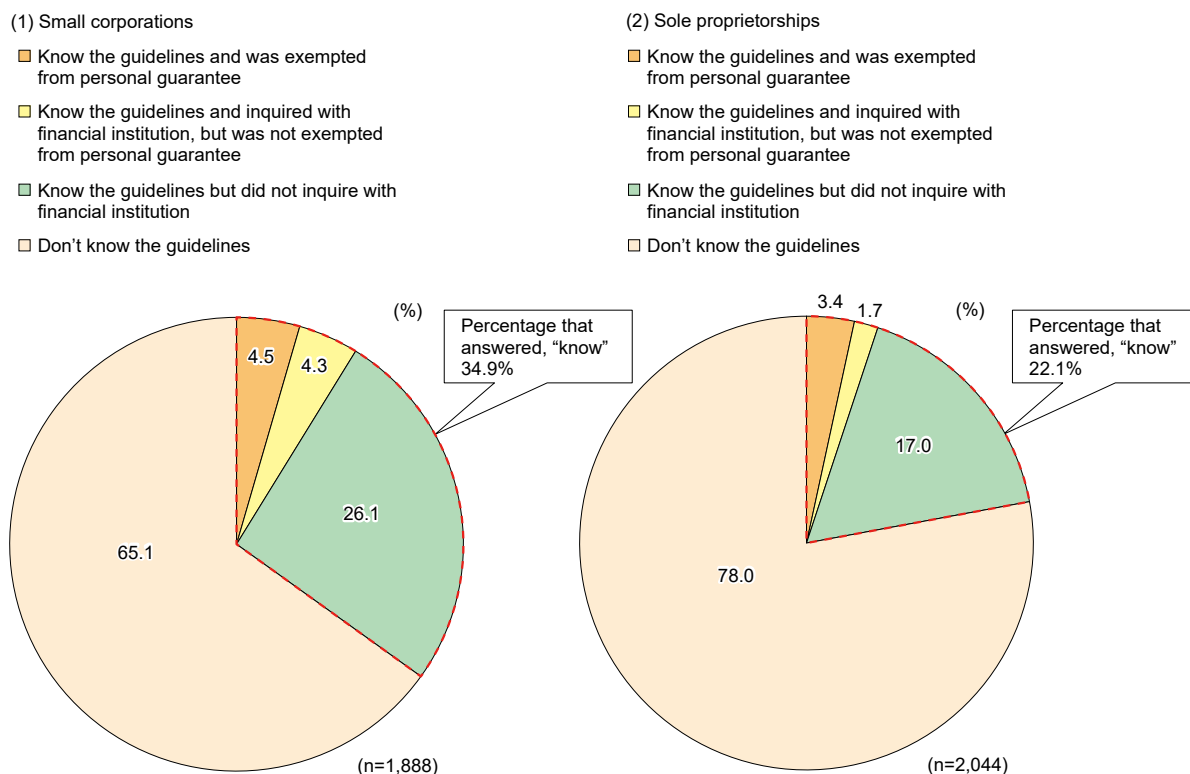
If a micro business wishes to procure funds without a president's guarantee, they shall be required to be in a management status such that (1) the roles of the corporation and the president are clearly categorized and separate, (2) it is possible to pay back the loan with the corporation's assets and/or earnings, and (3) the corporation's financial information shall be disclosed in a timely and appropriate manner.

For their part, financial institutions are required to consider the possibility of not asking for the president's guarantee and the possibility of using alternative financing procedures that function similarly to the president's

guarantee. If as a result of that consideration, the financial institution decides there is no choice but to ask for the president's guarantee, they are required to carefully and concretely explain the necessity of a guarantee contract and other matters to the debtor and/or guarantor and to set an appropriate guarantee amount.

Looking at recognition and usage of the Business Owners' Guarantee Guideline, among micro businesses that have loans from financial institutions, only 34.9% of small corporations and 22.1% of sole proprietorships know it. This indicates a need to further publicize and popularize use of the Guideline (Fig. 2-2-18).

8) Established by the "Research Committee on Guideline for Personal Guarantees Provided by Business Owners," overseen by the Japan Chamber of Commerce and Industry and Japanese Bankers Association.

Fig. 2-2-18 Recognition and usage of the Business Owners' Guarantee Guideline (small corporations and sole proprietorships)

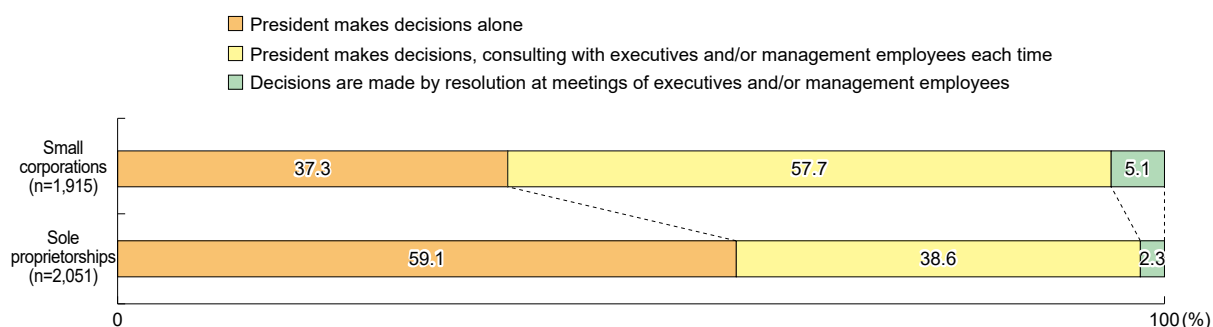
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregated figures are exclusive of those that answered, "do not borrow from financial institutions."

(5) Preparing for business succession (2) "Establishing the internal organization"

It is necessary to establish an internal organization to ensure that the successor conducts management smoothly after the business succession. With that perspective, we now overview the organizations of micro businesses with a focus on internal decision-making and the personnel, etc., that assist the president.

First, we look at internal decision-making based on form of organization (Fig. 2-2-19). The percentage answering "president makes decisions alone" was a high 59.1% for sole proprietorships, but 37.3% at small corporations. A large percentage of micro businesses depend on the president for decision-making, but enterprises that take the form of a corporation tend to make decisions organizationally.

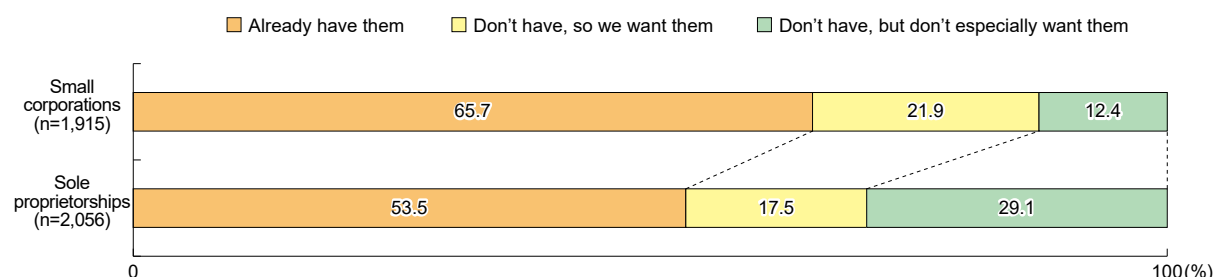
Fig. 2-2-19 How important decisions are made internally (small corporations and sole proprietorships)

Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at the personnel that assist the president (so-called right-hand persons). Fig. 2-2-20 looks at whether there are personnel to assist the president, based on form of organization. The percentage saying, “already have them” is 65.7% at small corporations, and 53.5% at sole proprietorships. The percentage saying, “don’t have, so we want them” was 21.9% at small corporations, and 17.5% at sole proprietorships. Combining these with those that answered, “already have them” shows that there are many presidents who have or need someone to assist them.

so we want them” was 21.9% at small corporations, and 17.5% at sole proprietorships. Combining these with those that answered, “already have them” shows that there are many presidents who have or need someone to assist them.

Fig. 2-2-20 Enterprises that have or do not have personnel to assist the president (small corporations and sole proprietorships)

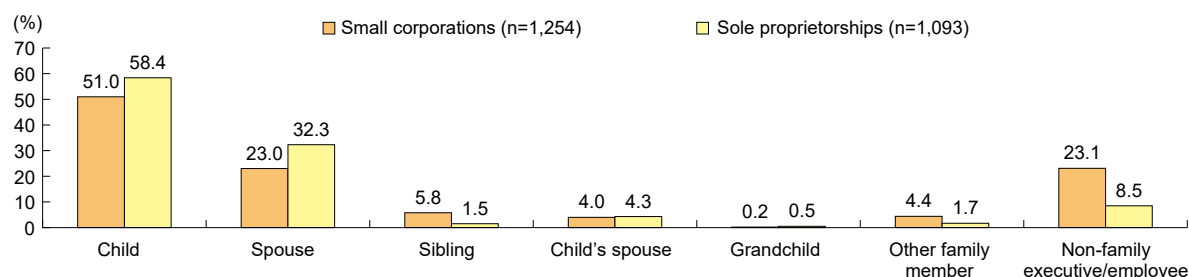


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at what kind of personnel there are assisting with management. Fig. 2-2-21 looks at the relationship between current presidents and the personnel

that assist them, based on form of organization. At micro businesses, a high percentage chose family members, e.g., “child” or “spouse.”

Fig. 2-2-21 Relationship between presidents and the personnel that assist them (small corporations and sole proprietorships)



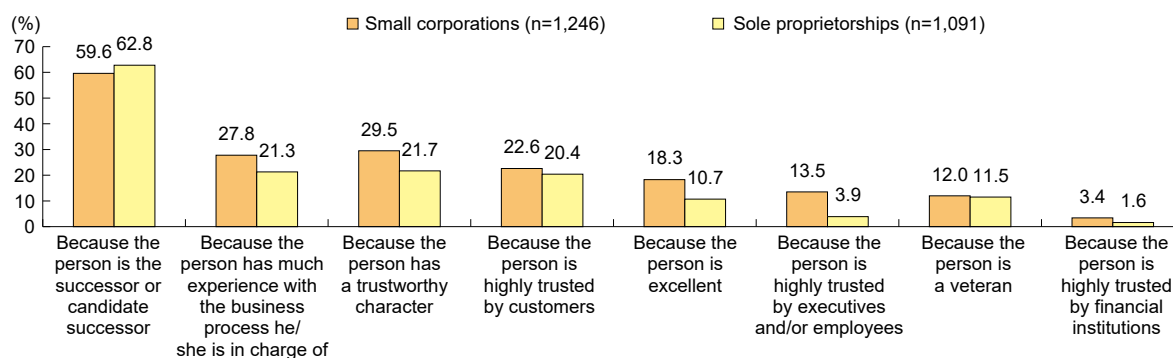
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes:
 1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered “already have them” regarding personnel to assist the president.

Fig. 2-2-22 looks at the reasons why micro businesses that have personnel to assist the president consider those persons to be of assistance to the president, based on form of organization. The most common response was “because the person is the successor or candidate successor.” This was an especially strong tendency

at micro businesses. At micro businesses, presidents’ assistants were known for their abundant experience and character, but it is conjectured that when successors and candidate successors get appointed as “right-hand persons” and assist with management, they are also being prepared to take over management.

Fig. 2-2-22 Reasons why persons who assist the president as considered as such (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered “already have them” regarding personnel to assist the president.
 3. Those that answered “other” are not shown.

In light of the above, many micro businesses, especially sole proprietorships, rely on the president’s judgment. Additionally, presidents that have personnel to assist them, regardless of form of organization, conduct management together with their “right-hand persons,” which includes their successors. It is not so easy to establish such an

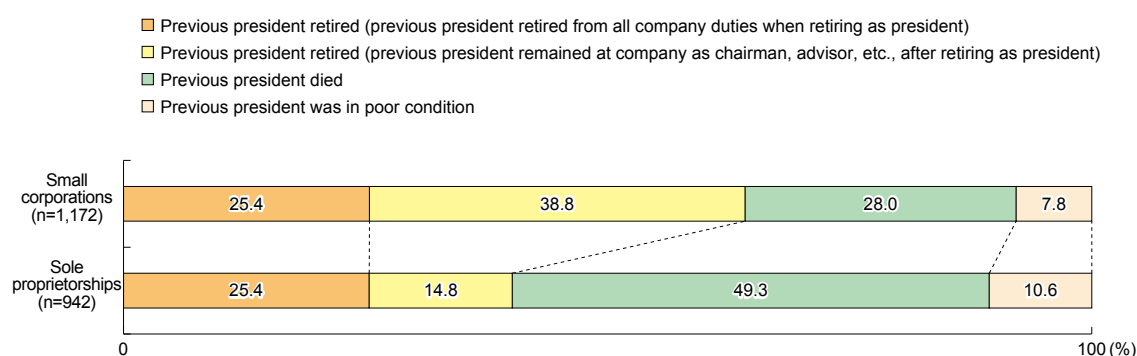
organization or to secure personnel to assist the president, but it is important to build an organization focused on the handover to the successor and to pay attention to securing and fostering personnel to assist the president starting before the president has to deal with business succession.

Column 2-2-1 Problems faced during business handover

This column overviews what triggered the handover of a business to its second or later generation president and things that became problems when that happened.

First, Fig. Column 2-2-1 (1) shows what triggered the handover, by form of organization. At small corporations, "previous president retired" was usually the trigger, but at 59.9% of sole proprietorships, the trigger was "previous president died" or "previous president was in poor condition." There was a certain percentage that gave this answer even at small corporations, which could be part of the reason that there is a negative impression about business succession.

Fig. Column 2-2-1 (1) Triggers of business handover, by form of organization

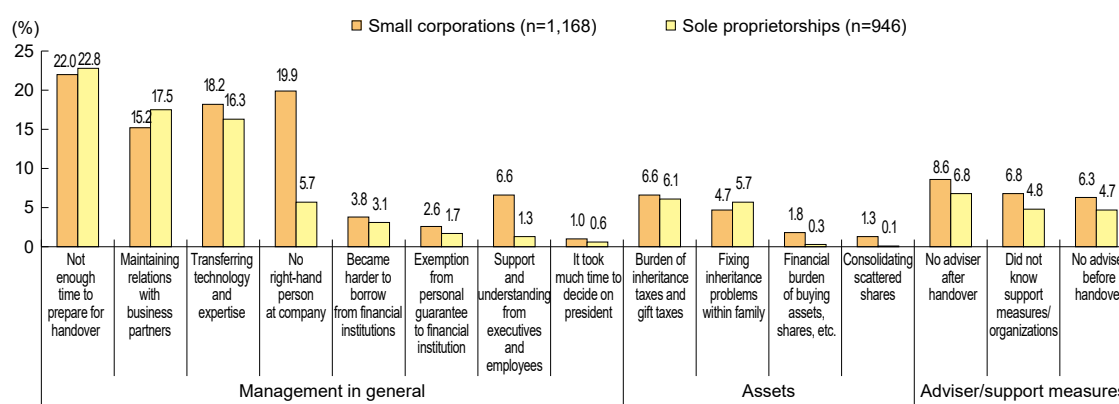


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered second-generation or later president.

Next, Fig. Column 2-2-1 (2) asks what kinds of things became problems during business handover at small corporations and sole proprietorships. For management in general, the top answers included "not enough time to prepare for handover," "maintaining relations with business partners," and "transferring technology and expertise." Small corporations responded, "no right-hand person at company" at a higher rate than sole proprietorships.

Fig. Column 2-2-1 (2) Problems faced during business handover (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Those that answered "other" or "none in particular" are not shown.
3. Aggregates second-generation and later presidents.

Based on the above, there are many micro businesses that see a lack of time to prepare and a lack of right-hand persons within the company as problems occurring during business handover. From this we can conclude that for a business succession to happen smoothly, it is helpful if the president handing over management perceives that succession will take time and starts establishing the internal systems and developing personnel in a planned way before actually handing over management to the successor.

Column 2-2-2 Measures for business succession

This column gives an overview of business succession support measures that can be used to ensure a smooth business succession.

Comprehensive support based on Management Succession Facilitation Act

- Exceptions under civil law concerning legally reserved portion

Successors who meet certain conditions (includes non-family successors) can qualify as exceptions under civil law as below by agreeing in writing with all claimants to legally reserved portion and taking the required procedures (getting the confirmation of the Minister of Economy, Trade and Industry and getting approval from family court).

 - (1) Exclusion of shares donated during the lifetime of the predecessor from being factored into the price of assets for calculating legally reserved portion

The dispersion of shares upon inheritance can be prevented by leaving shares out of the scope of requests to reduce legally reserved portion.
 - (2) Pre-fixing the valuation of shares gifted during lifetime

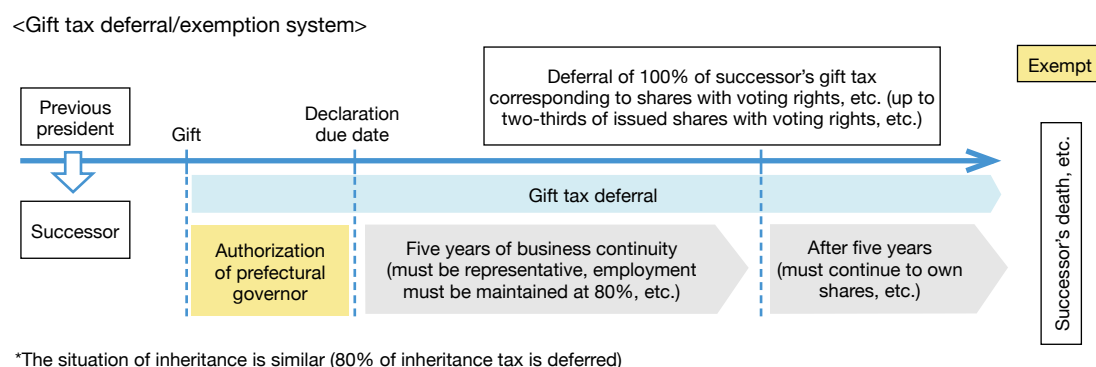
Increases in share value can be concentrated in management without worry of rising enterprise value, by not factoring it into the price of assets for calculating legally reserved portion.
- Financial support

In cases where financing demand (e.g., assets for purchasing treasury stock or assets for paying taxes) or a decline in credibility results from business succession and creates an impediment to management, assuming the prefectural governor authorizes it, (1) the credit guarantee limit can be substantially expanded or (2) a loan can be given to the representative individual by the Japan Finance Corporation.
- Business succession tax system

Payment of the portion of gift tax and inheritance tax corresponding to the taxation amount of unlisted shares, etc., that the successor acquires from the previous president by gift or inheritance will be deferred (100% of gift tax, 80% of inheritance tax) if the prefectural governor authorizes in respect to the Management Succession Facilitation Act and certain conditions continue to be met after that. (However, this provision applies only up to two-thirds of issued shares with full voting rights, including shares with voting rights that the successor already owned before the gift or inheritance.) In cases such as the successor subsequently dying, the deferred tax amount becomes exempt (Fig. Column 2-2-2).

A revision has been made so that, starting in FY2017, the employment conditions (maintain 80% of the number of employees on average for five years) will apply even in cases where enterprises with fewer than five employees reduce their number of employees by one. In addition, employment conditions will be made more flexible in such cases as disaster or bankruptcy of major business partners. Additionally, enterprises will be able to make concurrent use with the taxation system for settlement at the time of inheritance, which will reduce the tax burden when the gift tax deferral is cancelled.

Fig. Column 2-2-2 Overview of business succession tax system



Aiming to use business succession as an opportunity for growth

• Business succession subsidies

Business successions (including cases that involve business rehabilitation) provide an opportunity to give support for the costs needed for capital investment, expansion of sales channels, closing existing businesses, etc., at (1) SMEs that take on management innovation and (2) SMEs that undertake to make a change of business (subsidy maximum ¥2 million in the case of (1) and ¥5 million in the case of (2), subsidy rate of 2/3).

Reference (Business Succession Guidelines)

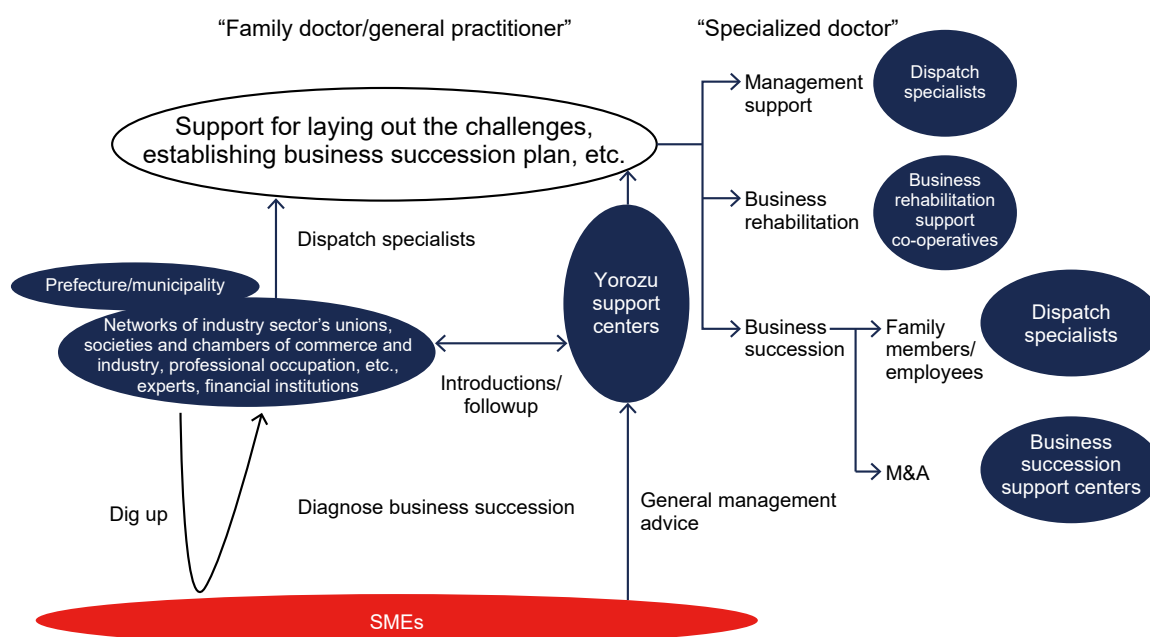
- (1) Importance of prompt and systematic efforts for business succession (performance of business succession diagnosis)
- (2) Presents five steps for business succession
- (3) Establishes Business Succession Guidelines, the main content of which involves strengthening systems for supporting business succession in local areas. In addition to the above, presents an overview of business succession and caution notes, measures for dealing with issues, etc. (SME Agency web site → Financial support → Business succession)

Column 2-2-3 Strengthening business succession support systems in local areas

• Business Succession Networks

Business Succession Networks are being built, mainly at the prefectural level, that consist of a variety of support organizations including societies and chambers of commerce and industry, professional specialists like certified public accountants and tax accountants, financial institutions, and more (Fig. Column 2-2-3 (1)). Another aim is to use tools like “business succession diagnoses” (Fig. Column 2-2-3 (2)) to uncover business succession needs with help from a support organization, and to build a system wherein SMEs can get seamless support up to the point where their challenges are solved by commissioning appropriate support organizations suited to specific challenges.

Fig. Column 2-2-3 (1) Strengthening business succession support systems



For those with successor problems

• Business succession support center⁹⁾

To ensure smooth business handovers and business successions at SMEs, “business succession support centers” in each prefecture give advice and information to solve problems and also help with matching.

9) A business succession support center is a specialized agency established to support SMEs and others by matching them with successors, based on the Act on Strengthening Industrial Competitiveness.

Fig. Column 2-2-3 (2) Business succession diagnosis (self-diagnosis)

Image

事業承継自己診断チェックシート

以下の設問について、「いいえ」という回答があった方は、次ページをご覧ください。

Q1	事業計画を策定し、中長期的な目標やビジョンを設定して経営を行っていますか。	はい	いいえ
Q2	経営上の悩みや課題について、身近に相談できる専門家はいますか。	はい	いいえ
<p>【以下の中から、当てはまる設問へお進みください】</p> <ul style="list-style-type: none"> ・私には後継者がいる【子ども、親族、従業員】・・・☆へ ・私には後継者にしたい人材がいる【子ども、親族、従業員】・・・Q6～Q7へ ・私には後継者がいない・・・Q8～Q9へ 			
<p>☆後継者に対し将来会社を託すことを明確に伝え、後継者として事業を引継ぐ意思を確認しましたか。</p> <p>※「はい」の方はQ3～Q5を回答してください。 「いいえ」の方はQ6～Q7を回答してください。</p>			
Q3	後継者に対する教育・育成、人脈や技術などの引継ぎ等の具体的な準備を進めていますか。	はい	いいえ
Q4	役員や従業員、取引先など社内外の関係者の理解や協力が得られるよう取組んでいますか。	はい	いいえ
Q5	法務面や税務面、資金面などについて将来の承継を見据えた対策を進めていますか。	はい	いいえ
Q6	後継者の正式決定や育成、ご自身の退任時期の決定など、計画的な事業承継を進めるために必要な準備期間は十分にありますか。	はい	いいえ
Q7	後継者候補に承継の意向について打診をする時期や、ご自身がまだ打診をしていない理由は明確ですか。 (後継者候補が若く、打診するには早すぎる 等)	はい	いいえ
Q8	第三者に事業を引継ぐ(企業売却・事業譲渡等)場合の相手候補先はありますか。	はい	いいえ
Q9	企業売却・事業譲渡等の進め方についてご存知ですか。	はい	いいえ

※次ページには、支援機関の紹介等を掲載

2. State of preparation for and challenges with management handover

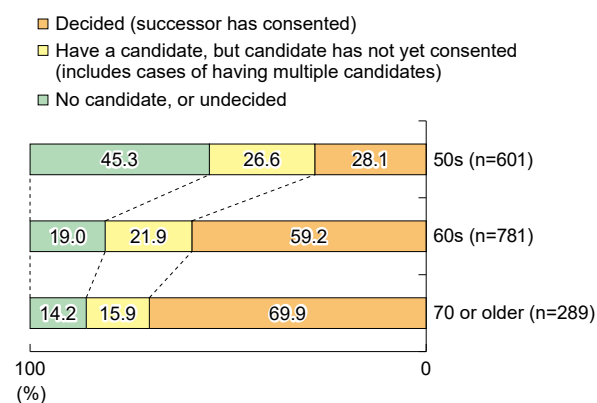
Management handover is an extremely important element of business succession. In order to maintain and develop the business fostered by the preceding president, maintain employment, and hold up the business's part of the supply chain, it is vital that a business select and get the approval of its successor at an early stage and take its time handing over responsibilities.

In subsection 2, we analyze the state of preparation for and challenges with management handover at micro businesses. The analysis is done separately for small corporations and sole proprietorships.

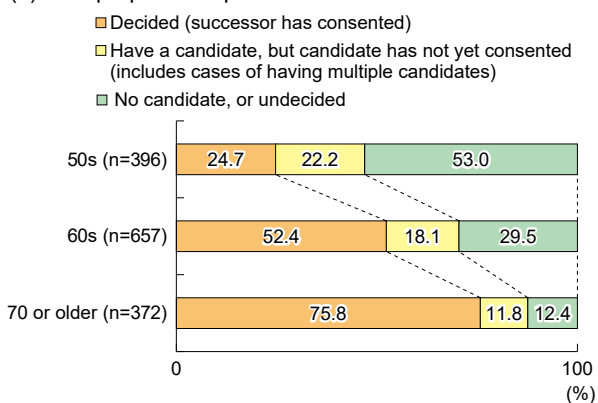
First, Fig. 2-2-23 considers the successor selection status based on the age of the president. The percentage of micro businesses where the successor was decided was less than 30% when the presidents are in their 50s, but more than 50% with presidents in their 60s and roughly 70% with presidents age 70 or older. On the other hand, 30.1% of small corporations and 24.2% of sole proprietorships with presidents age 70 or older had not decided on a successor, answering, "have a candidate, but candidate has not yet consented" or "no candidate, or undecided."

Fig. 2-2-23 Successor selection status, based on president's age (small corporations and sole proprietorships)

(1) Small corporations



(2) Sole proprietorships



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

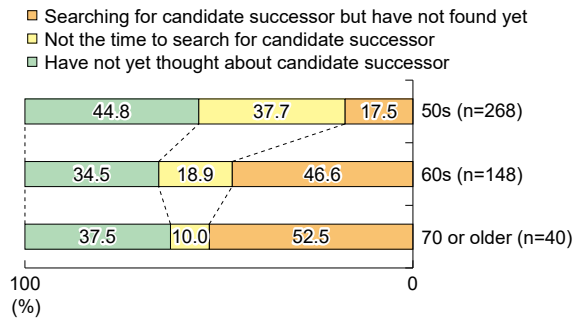
Note: Aggregates those that answered, "would like to hand over to someone (includes transferring or selling business)" or "undecided about handing over management" regarding inclination about business succession.

Fig. 2-2-24 asks those micro businesses who answered, “no candidate, or undecided” what they think about candidate successors. Presidents responding, “searching for candidate successor but have not found yet” increase as the president’s age rises, but at sole proprietorships,

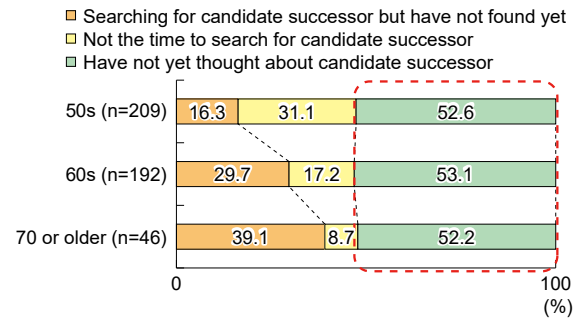
even with presidents of age 70 or older, more than 50% answered, “have not yet thought about candidate successor.” Presidents like these need to think about business succession earlier.

Fig. 2-2-24 Status of enterprises without a candidate successor, by president’s age (small corporations and sole proprietorships)

(1) Small corporations



(2) Sole proprietorships



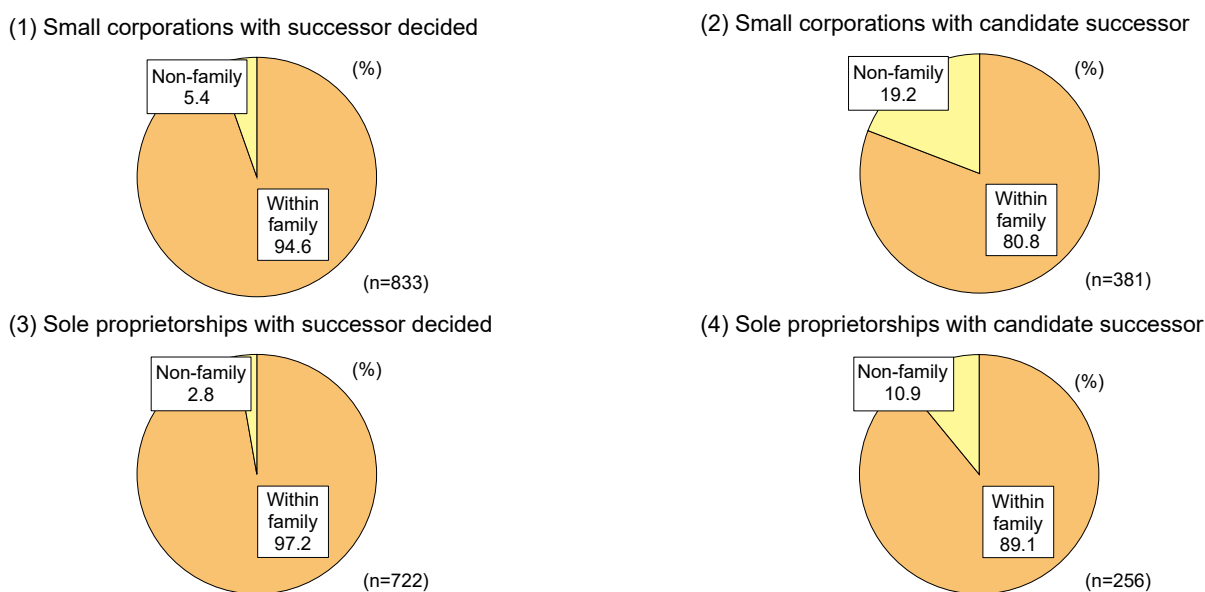
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “no candidate, or undecided” regarding successor to be entrusted with management.

Next, Fig. 2-2-25 shows the percentage of successions within family and non-family successions, by successor decision status. Looking at micro businesses where the successor was decided, the succession was going to a non-family member at only 5.4% of small corporations and 2.8% of sole proprietorships. And at micro businesses with candidate successors, succession was going to a non-

family member at 19.2% of small corporations and 10.9% of sole proprietorships. This suggests that while a certain percentage of micro businesses exist that are considering a non-family member as a candidate successor, the actual percentage of non-family successions is low and non-family succession may be quite difficult for micro businesses.

Fig. 2-2-25 Percentage of successions within family and non-family successions, by successor decision status (small corporations and sole proprietorships)



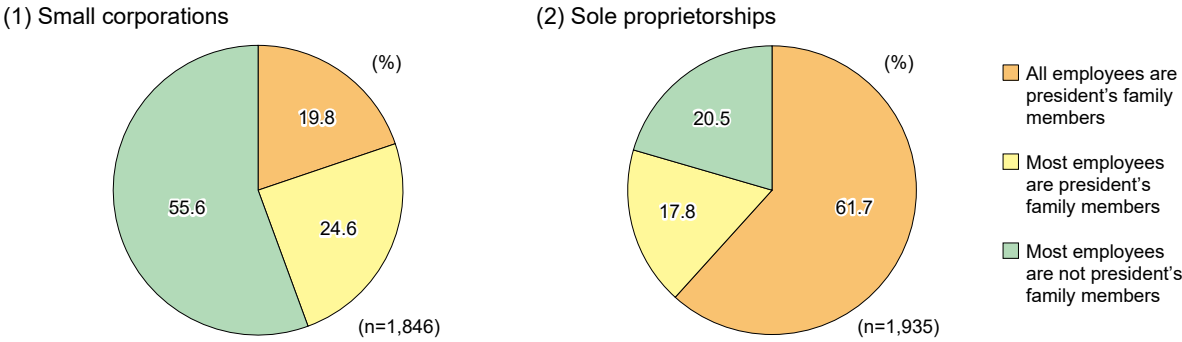
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Aggregates those that answered, “decided (successor has consented)” or “no candidate, or undecided” regarding successor to be entrusted with management.
2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor or candidate successor.

As background to the fact that a high percentage of micro businesses are considering succession within family, Fig. 2-2-26 examines employee structure by form of organization. About 40% of small corporations are family-run, i.e., run mainly by the president's family

members, while about 80% of sole proprietorships are family-run. It is conjectured that at family-run enterprises like these, it is hard to appoint employees or outside personnel as successors.

Fig. 2-2-26 Employee structure, by form of organization



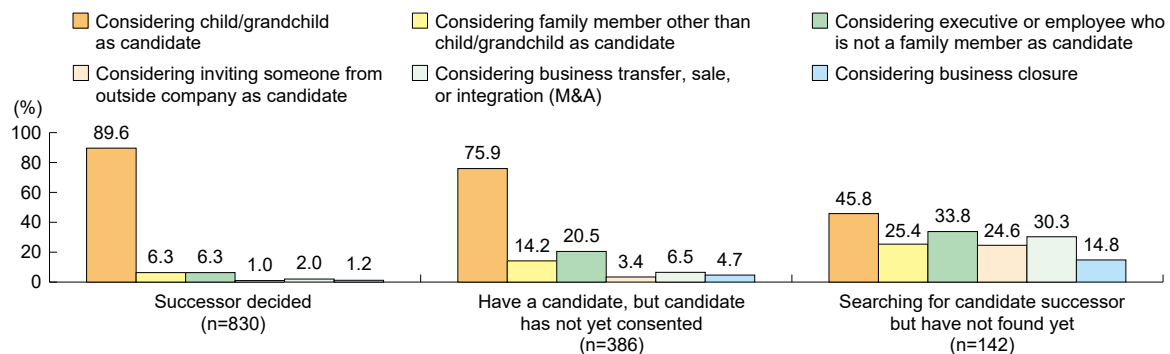
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at what future micro businesses were considering when selecting a successor. Fig. 2-2-27 looks at what scenarios they considered when selecting a successor, by successor selection status. A high percentage of enterprises that answered, “successor decided” were considering a child or grandchild as successor. A high

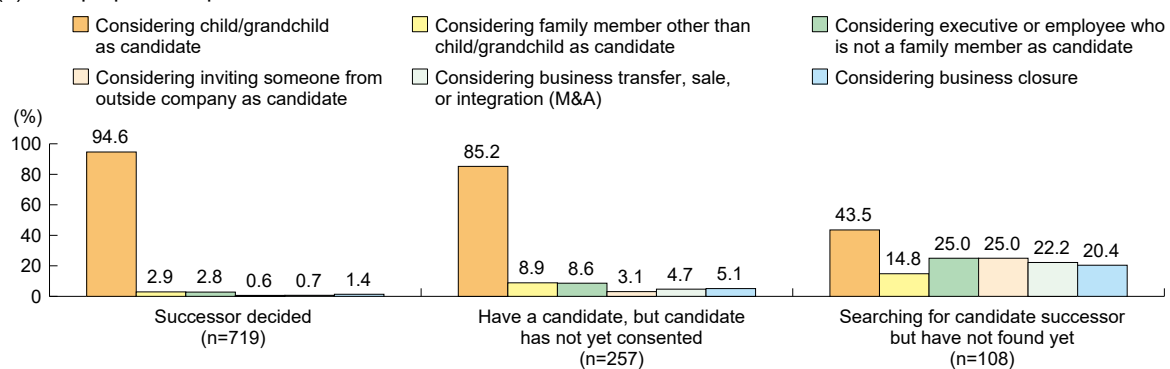
percentage of enterprises that answered, “searching for candidate successor but have not found yet” were considering not only a non-family executive or employee, but even a person from outside, or business transfer, sale, or integration (M&A).

Fig. 2-2-27 Scenarios considered when selecting successor, by successor selection status (small corporations and sole proprietorships)

(1) Small corporations



(2) Sole proprietorships



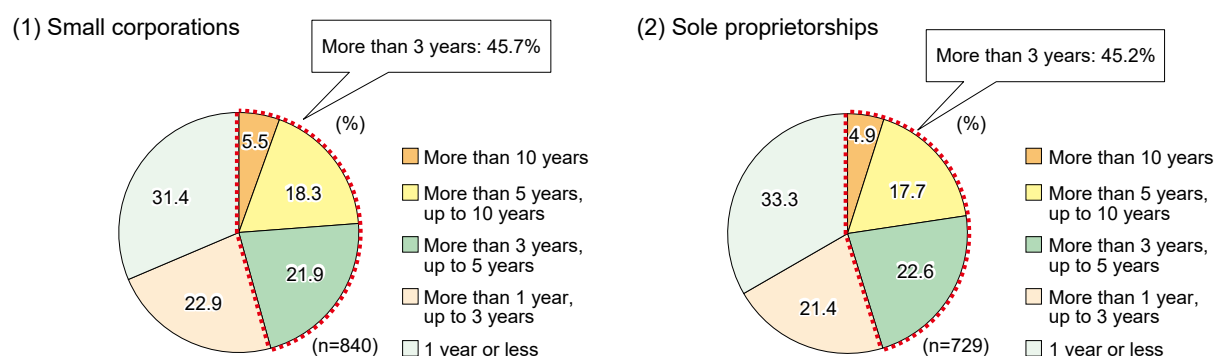
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-2-28 looks at how much time it took from start of the successor selection process until the successor consented at micro businesses. 45.7% of small corporations and 45.2% of sole proprietorships needed

more than three years. Given that, after the successor consents, an enterprise must train the successor and pass on the company's expertise to the successor, it is best if the successor selection process begins early.

Fig. 2-2-28 Time it took from start of the successor selection process until the successor consented at enterprises where the successor was decided (small corporations and sole proprietorships)



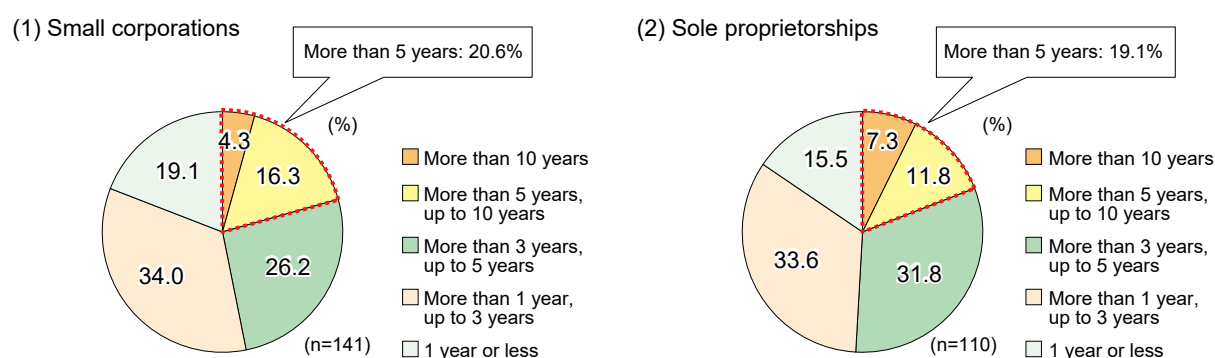
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "decided (successor has consented)" regarding successor to be entrusted with management.

Fig. 2-2-29 shows how much time had passed so far since the start of the selection process at enterprises that answered, "searching for candidate successor but have not found yet." At 20.6% of small corporations and 19.1% of

sole proprietorships, no candidate successor had been found even after more than five years since the start of the search. Thus, a certain percentage of micro businesses are struggling to secure a successor.

Fig. 2-2-29 How much time has passed so far since the start of the selection process at enterprises that were searching for a candidate successor but had not found one yet (small corporations and sole proprietorships)



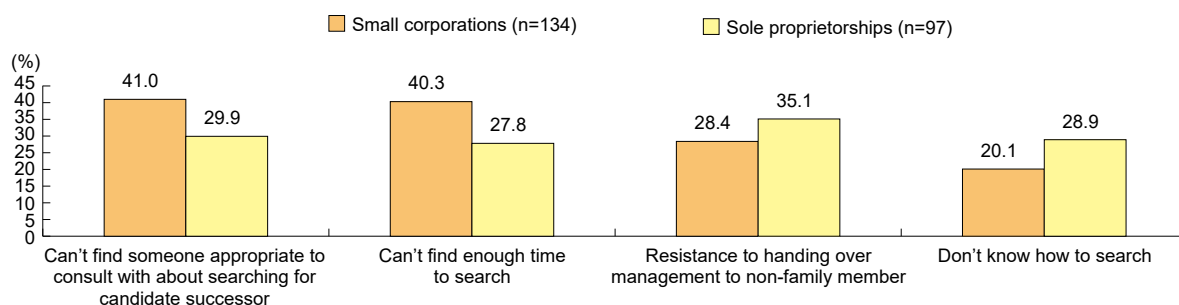
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "searching for candidate successor but have not found yet" regarding successor to be entrusted with management.

Fig. 2-2-30 looks at the reasons why the enterprises that answered, “searching for candidate successor but have not found yet” have not found candidate successors. The most common response (35.1%) from sole proprietorships was that there was “resistance to handing over management to non-family member.” At small corporations, the answers “can’t find someone appropriate to consult with about

searching for candidate successor” and “can’t find enough time to search” each got more than 40%. It appears that micro businesses are struggling to find successors because there is strong resistance to non-family succession, they have no one appropriate to consult with, and they do not have enough time to search.

Fig. 2-2-30 Reasons why enterprises have not found candidate successors (small corporations and sole proprietorships)



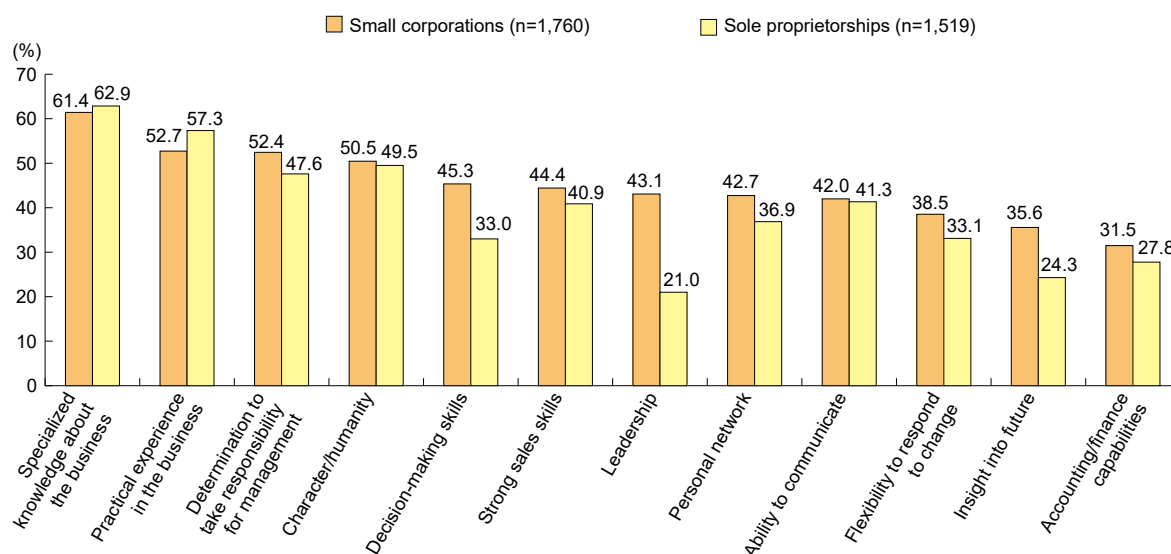
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates those that answered, “searching for candidate successor but have not found yet” regarding successor to be entrusted with management.

From this point, we look in detail at the points that micro businesses particularly consider when deciding on a successor. First, we look at the qualities and capabilities that micro businesses seek in successors, both at small corporations and at sole proprietorships (Fig. 2-2-31).

Points that both groups value are “specialized knowledge about the business” and “practical experience in the business.” However, small corporations tend to value “decision-making skills” and “leadership” more than sole proprietorships do.

Fig. 2-2-31 Qualities and capabilities sought in successors (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

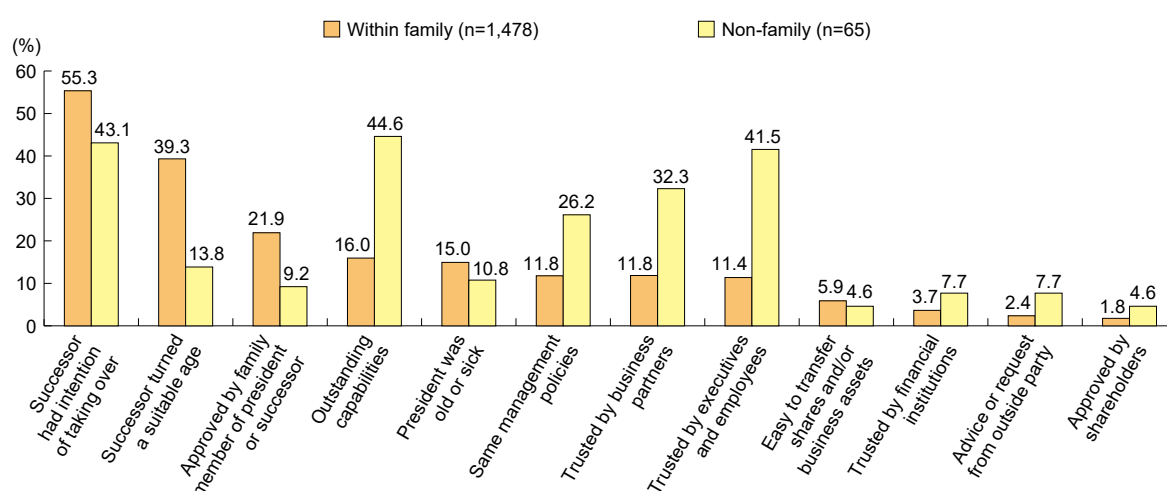
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.

When deciding on a successor, there appears to be a difference based on whether the current president and successor/candidate successor have a family relationship. Therefore, our analysis of the process by which the micro business reaches its successor decision will focus on whether the successor/candidate successor is within the family or not.

First, we look at the reasons for deciding on the successor, based on the relationship with the successor (Fig. 2-2-32). A frequent answer for both groups was

“successor had intention of taking over.” However, micro businesses that chose a family member as successor tended to value “successor turned a suitable age” and “approved by family member of president or successor,” while enterprises that chose a non-family successor most frequently chose answers like “outstanding capabilities,” “trusted by executives and employees,” and “trusted by business partners,” indicating that they value the successor’s qualities and the trust the successor has from others.

Fig. 2-2-32 Reasons for deciding on the successor at micro businesses (within family, non-family)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

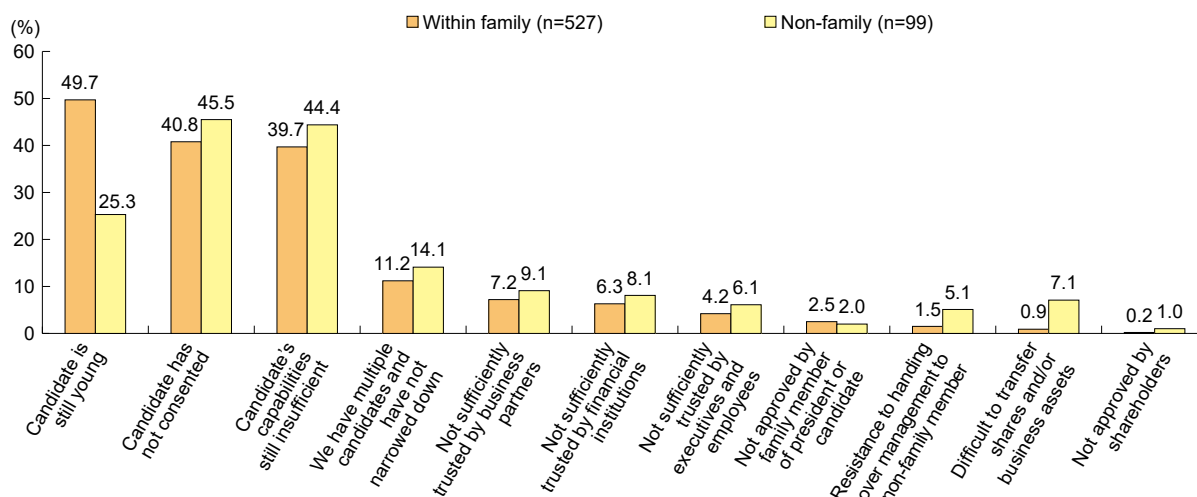
Notes: 1. Total does not always equal 100% as multiple responses were possible.

2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor.

Next, we look at the reasons why some enterprises have a candidate successor but have not yet decided on the successor, based on whether the candidate successor is within the family or not (Fig. 2-2-33). Both groups frequently mentioned, “candidate has not consented” and “candidate’s capabilities still insufficient.” However,

micro businesses that chose a family member as candidate successor most often responded, “candidate is still young,” thus putting a greater emphasis on the candidate’s age than was the case with enterprises that chose a non-family candidate successor.

Fig. 2-2-33 Reasons why successor not yet decided at micro businesses (within family, non-family)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.

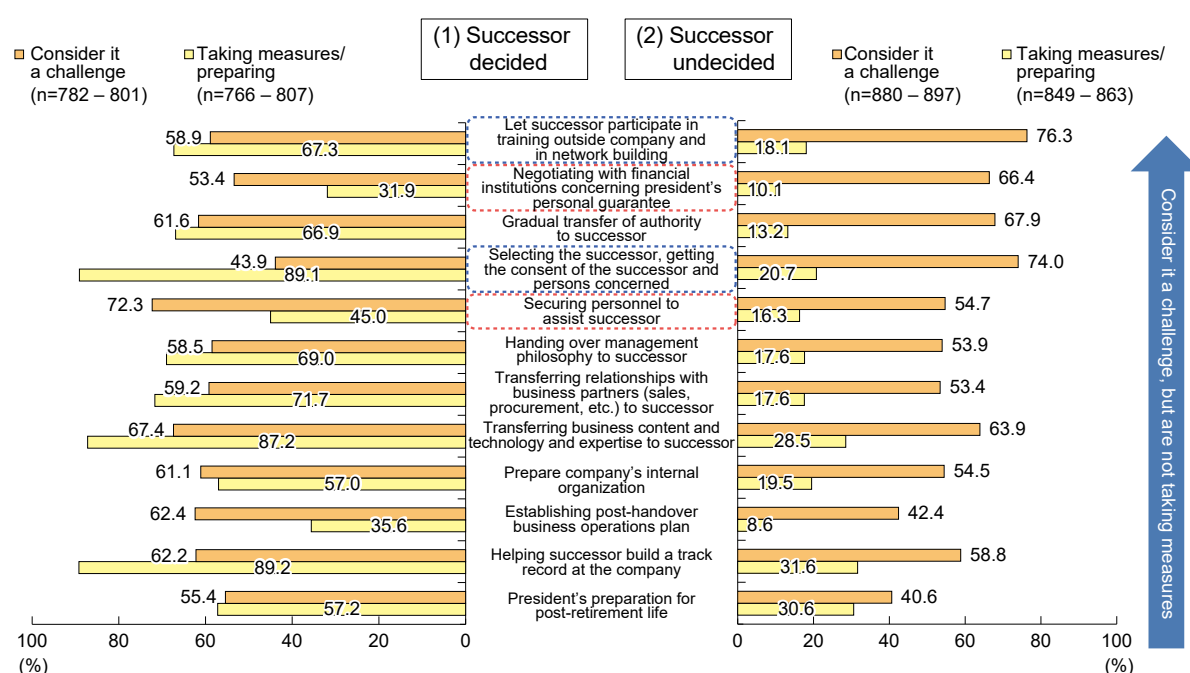
2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding candidate successor.

Here, we look at the challenges enterprises face in handing over management to successors, and their state of measures and preparation for dealing with those challenges, focusing on differences between enterprises where the successor was decided and enterprises where the successor was not.

Fig. 2-2-34 looks at the management handover challenges small corporations face and their state of measures and preparation for dealing with those challenges. Challenges common to enterprises where the successor was or was not decided include “negotiating

with financial institutions concerning president’s personal guarantee” and “securing personnel to assist successor.” Both groups, it seems, have been slow to take measures and prepare for these challenges. On the other hand, looking just at enterprises where the successor was not decided, this group considered the following to be challenges: “let successor participate in training outside company and in network building” and “selecting the successor, getting the consent of the successor and persons concerned.” However, only a small percentage were taking measures and preparing for these challenges.

Fig. 2-2-34 Management handover challenges that small corporations face, and their state of measures and preparation for dealing with them



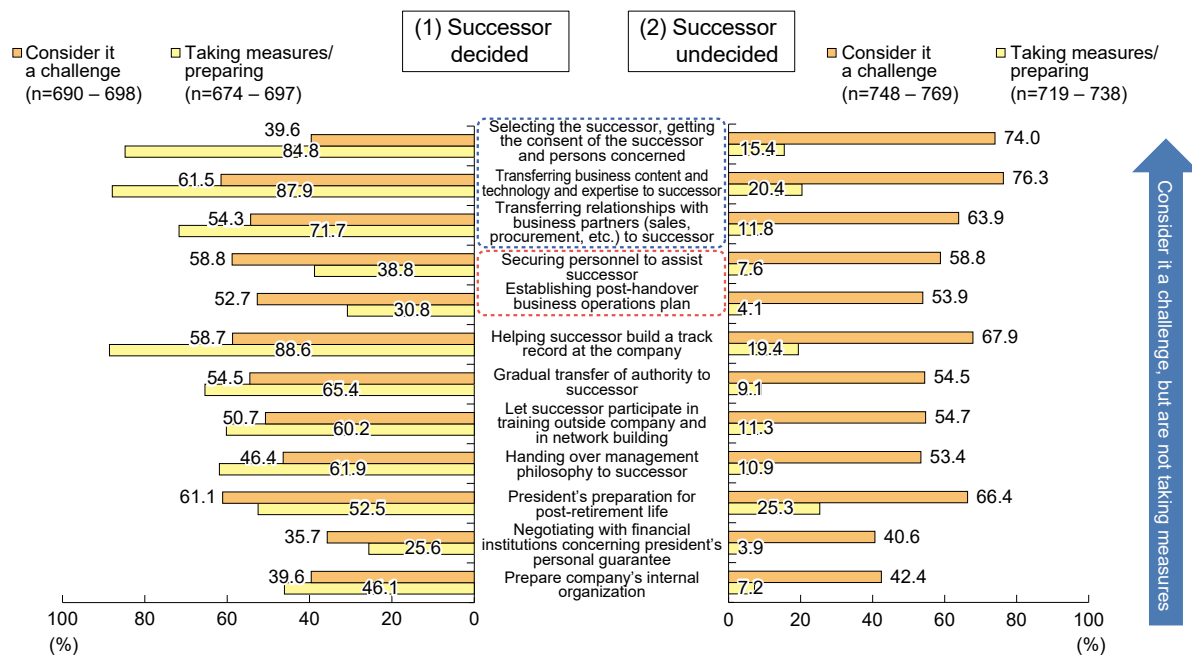
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”
 3. Items are ordered based on size of difference (largest to smallest) between percentage of enterprises that have not decided on successor that answered, “consider it a challenge” and percentage that answered “taking measures/preparing.”

Fig. 2-2-35 looks at the management handover challenges sole proprietorships face and their state of measures and preparation for dealing with those challenges. Challenges common to enterprises where the successor was or was not decided include “securing personnel to assist successor” and “establishing post-handover business operations plan.” Both groups again seem to have been slow to take measures and prepare for these challenges. Focusing just on enterprises

where the successor was not decided, on the other hand, frequently mentioned issues included “selecting the successor, getting the consent of the successor and persons concerned,” “transferring business content and technology and expertise to successor,” and “transferring relationships with business partners (sales, procurement, etc.) to successor.” Here, too, only a small percentage of enterprises were taking measures or preparing.

Fig. 2-2-35 Management handover challenges that sole proprietorships face, and their state of measures and preparation for dealing with them



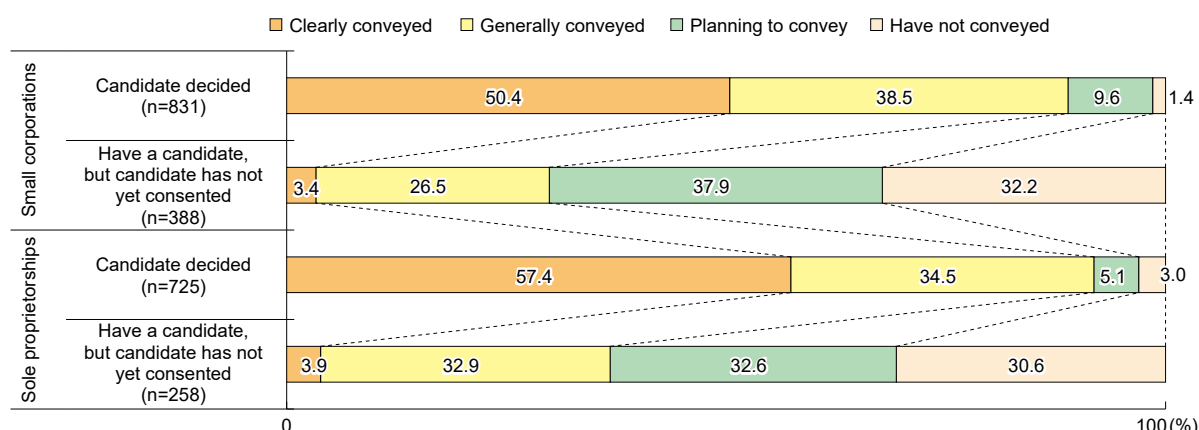
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”
 3. Items are ordered based on size of difference (largest to smallest) between percentage of enterprises that have not decided on successor that answered, “consider it a challenge” and percentage that answered “taking measures/preparing.”

Business successions from parent to child happen often at micro businesses, but even between parent and child, to get the successor's consent, it is important first that the current president clearly convey to the successor the intention to transfer management. Fig. 2-2-36 looks at the

extent to which the intention to transfer management had been conveyed, based on the successor decision status. Many micro businesses where there was a candidate but the successor was not decided had not conveyed their intention to transfer management.

Fig. 2-2-36 Extent to which the intention to transfer management had been conveyed (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

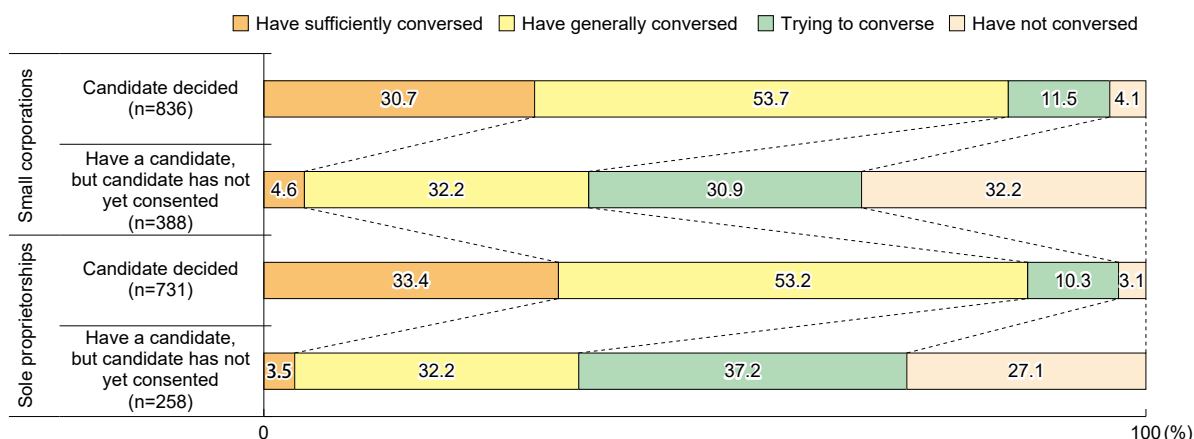
Next, we look at the conversations that micro businesses have with the successor/candidate successor. Conversations with the successor/candidate successor refers to routine conversations about business and management in order to pass down intellectual assets, convey to the successor the intention of transferring management, and get the successor's consent. Intellectual assets are, as listed in Fig. 2-2-1, invisible, intangible assets such as technology, skills, intellectual property (patents, brands, etc.), organizational strength, management

philosophy, and customer networks. As such, intellectual assets are also a micro business's strength and source of value. Passing these intellectual assets down to the next generation is indispensable for the maintenance and development of the business. It is also necessary for micro businesses that their presidents should have routine conversations with the successors/candidate successors for the sake of letting the successor/candidate successor form the intention of taking over management.

First, we look at the state of presidents' conversations with successors/candidate successors. According to Fig. 2-2-37 a higher percentage of micro businesses where the

successor was decided had had conversations than was the case at micro businesses where the successor was not decided.

Fig. 2-2-37 State of conversations with successors/candidate successors (small corporations and sole proprietorships)

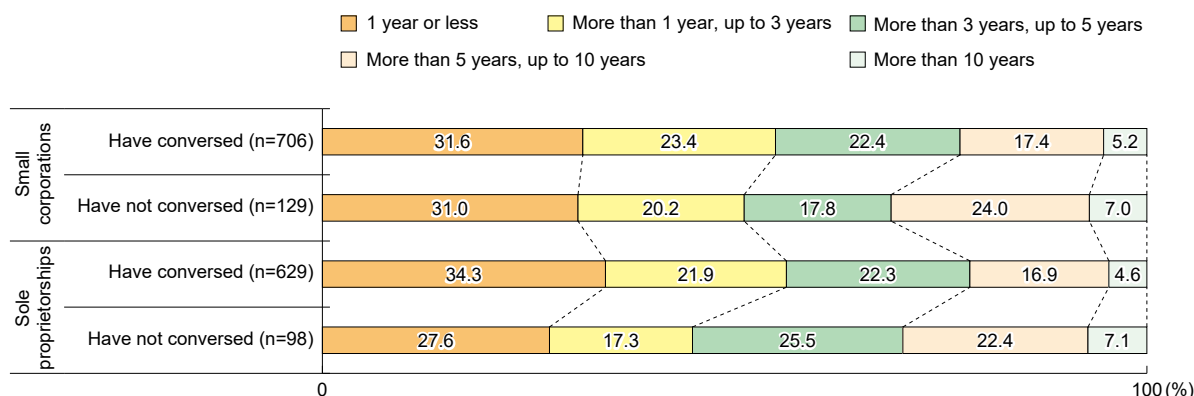


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at the effectiveness of conversations with successors. Fig. 2-2-38 looks at how much time it took from start of the successor selection process until the successor consented at enterprises where the successor was decided, based on the state of conversations. Overall, enterprises that had had conversations tended to take

less time from start of selection to successor's consent than was the case with enterprises that had not had conversations. It is conjectured that enterprises that have had conversations with the successor get the successor's consent more easily.

Fig. 2-2-38 Time it took from start of the successor selection process until the successor consented, based on state of conversations (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

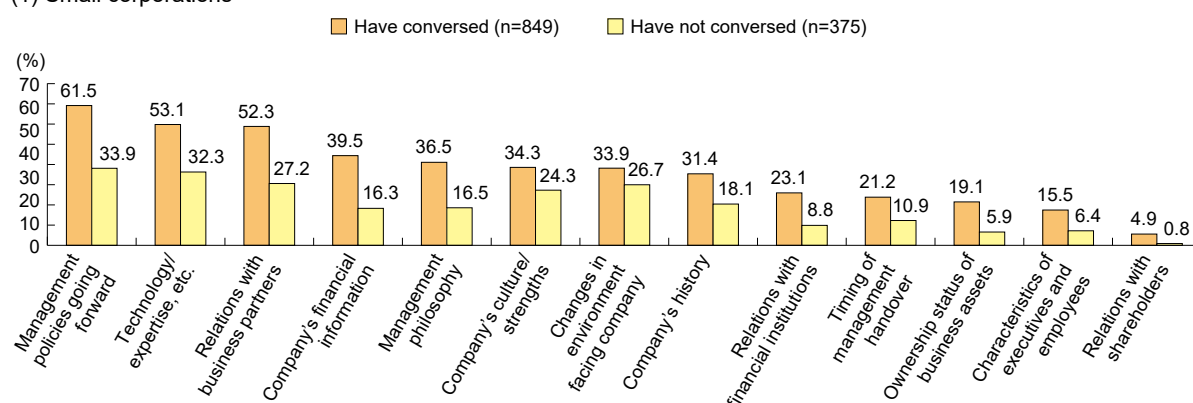
Notes: 1. Aggregates those that answered, "decided (successor has consented)" regarding successor to be entrusted with management.
2. Here, "have conversed" refers to those that answered, "have sufficiently conversed" or "have generally conversed" regarding the state of their conversations with the successor. Also, here, "have not conversed" refers to those that answered, "trying to converse" or "have not conversed" regarding the state of their conversations with the successor.

Next, we examine the matters that were address in conversations with successors/candidate successors. Fig. 2-2-39 looks at the matters that small corporations and sole proprietorships discussed in conversations with successors/candidate successors, by state of

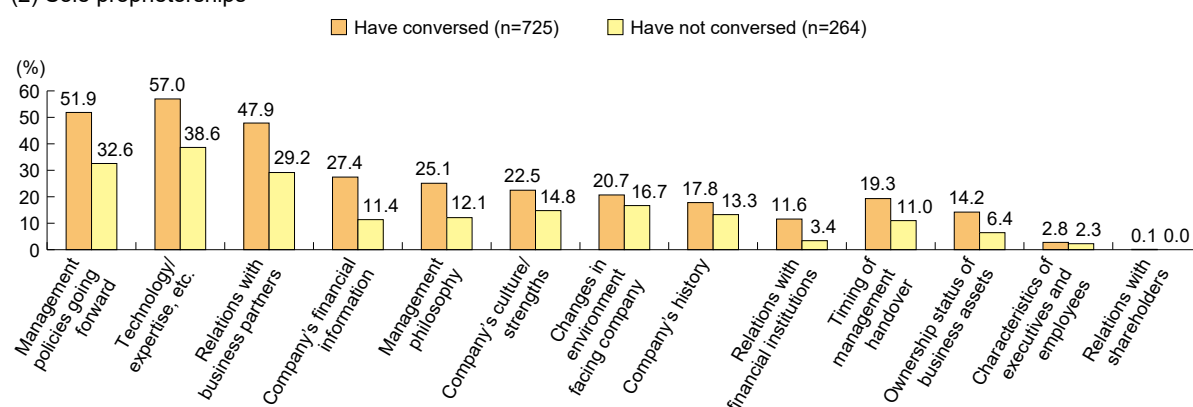
conversations. Matters addressed in conversations at many enterprises included, “management policies going forward,” “technology/expertise, etc.,” and “relations with business partners.”

Fig. 2-2-39 Matters discussed in conversations with successors/candidate successors, based on state of conversations (small corporations and sole proprietorships)

(1) Small corporations



(2) Sole proprietorships



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

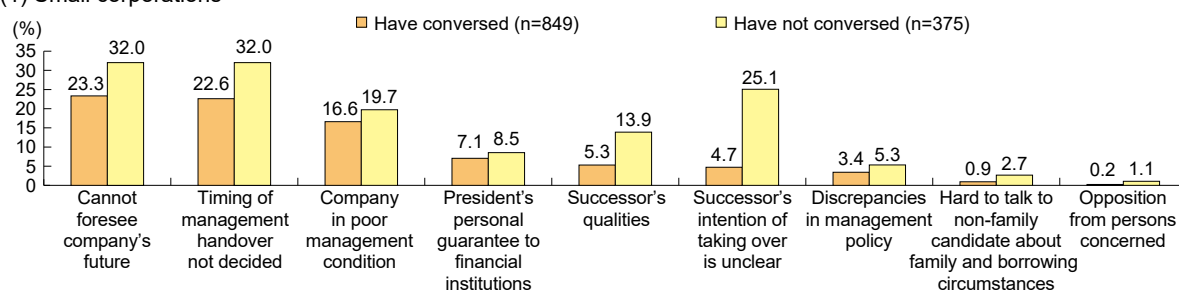
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.
 3. Here, “have conversed” refers to those that answered, “have sufficiently conversed” or “have generally conversed” regarding the state of their conversations with the successor/candidate successor. Also, here, “have not conversed” refers to those that answered, “trying to converse” or “have not conversed” regarding the state of their conversations with the successor/candidate successor.
 4. Those that answered “other” are not shown.

Fig. 2-2-40 looks at the obstacles to conversations with successors/candidate successors, by state of conversations. Focusing on enterprises that “have not conversed,” the most common answer was “cannot foresee company’s future,” followed by “timing of management handover not decided” and “successor’s intention of taking over is unclear.” Some problems mentioned concerned the

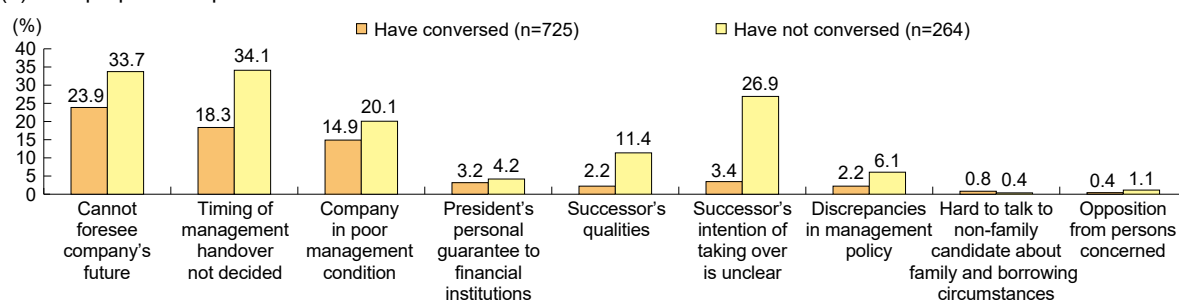
successor, such as that person’s qualities and intention to take over, but there was also a problem concerning the current president handing over management: “timing of management handover not decided.” It is important to advance the business succession in a systematic way, with a clear schedule for doing so.

Fig. 2-2-40 Obstacles to conversations with successors/candidate successors, based on state of conversations (small corporations and sole proprietorships)

(1) Small corporations



(2) Sole proprietorships



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.
 3. Here, “have conversed” refers to those that answered, “have sufficiently conversed” or “have generally conversed” regarding the state of their conversations with the successor/candidate successor. Also, here, “have not conversed” refers to those that answered, “trying to converse” or “have not conversed” regarding the state of their conversations with the successor/candidate successor.
 4. Those that answered “other” or “none in particular” are not shown.

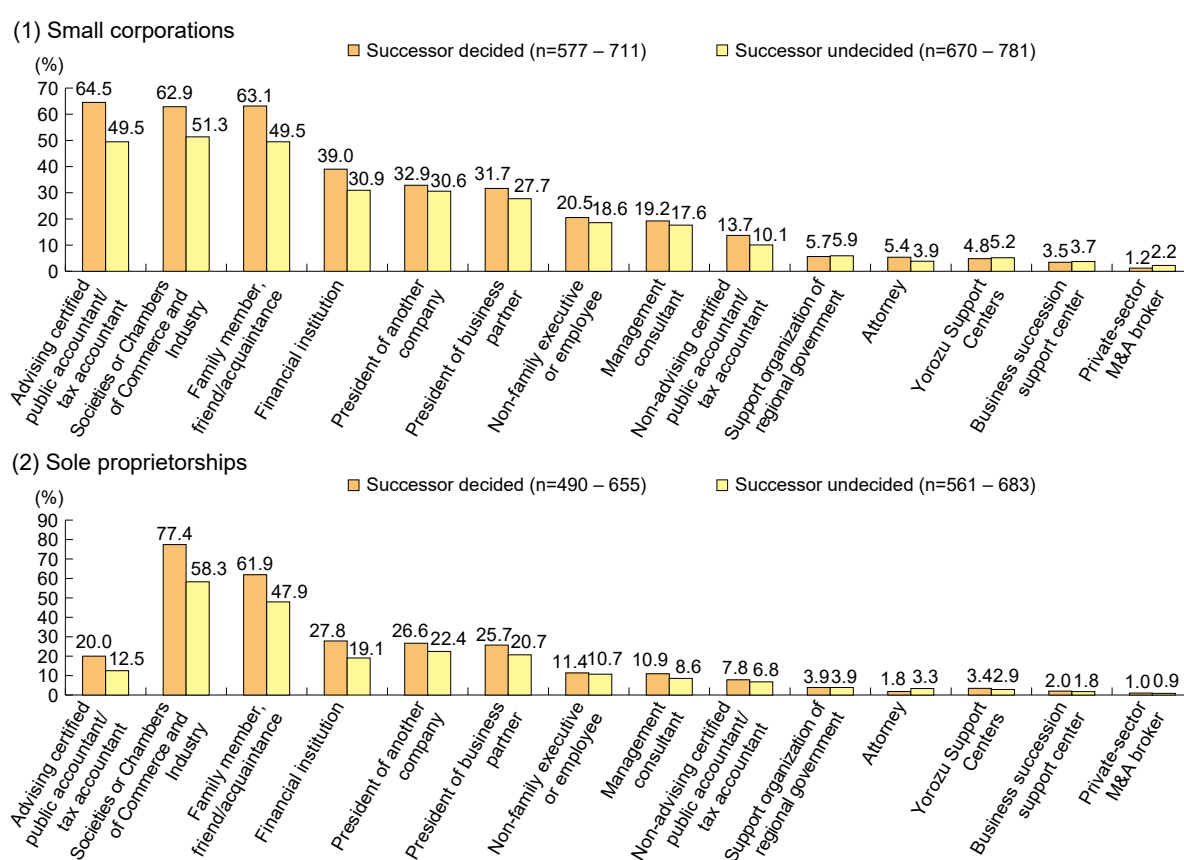
In light of the above, micro businesses that clearly convey to the successor/candidate successor their intention to transfer management and have conversations with the successor have an easier time getting the successor’s consent. Taking on the responsibility for management is a big decision affecting the successor’s life. Even if the successor is a family member, insufficient or inconsistent communication between the president and successor/candidate successor, with the president

assuming the successor/candidate successor has given implicit consent or “will of course take over,” can hinder a smooth business succession. If the enterprise entrusts management to a non-family employee, executive, etc., it is necessary to confirm the person’s intention to take over and get the consent of the family members of the successor/candidate successor. The conversations have to be even more thorough in these cases.

Up to this point, we have focused on the relationship between the current president and successor. Our conclusions were that management handovers involve a variety of management challenges, and accepting advice from others is important to ensure a smooth handover of management. Fig. 2-2-41 shows who presidents went to for advice in the past, based on the successor decision status. According to this, enterprises where the successor was not decided do not seek advice from those around them or from support organizations as often as enterprises that have decided. Focusing on who enterprises went to for

advice, the most frequent answer for small corporations was “advising certified public accountant/tax accountant,” followed by “societies or chambers of commerce and industry,” “family member, friend/acquaintance” and “financial institution,” while at sole proprietorships, the most common answer was “societies or chambers of commerce and industry,” followed by “family member, friend/acquaintance.” On the whole, sole proprietorships are less likely than small corporations to seek out advice. It is conjectured that the president in this case considers his or her successor without help from others.

Fig. 2-2-41 Who presidents went to for advice in the past, based on the successor decision status (small corporations and sole proprietorships)



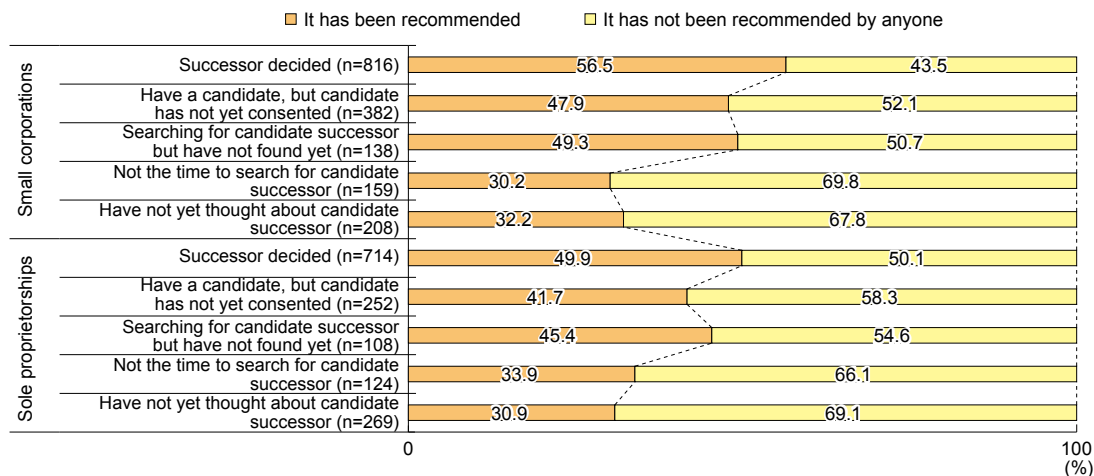
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Fig. 2-2-42, focusing on the encouragement presidents get from those around them, looks at the percentage of enterprises that were recommended by others to prepare for the handover of management and assets, based on successor selection status. It appears that a high percentage of micro businesses with the “successor decided” said

that “it has been recommended” by others. On the other hand, in those cases where presidents that said, “not the time to search for candidate successor” or “have not yet thought about candidate successor” are not thinking about handover of management and assets, they are not getting much encouragement from others around them.

Fig. 2-2-42 Percentage of presidents that were recommended to prepare to hand over management and assets, based on successor selection status (small corporations and sole proprietorships)

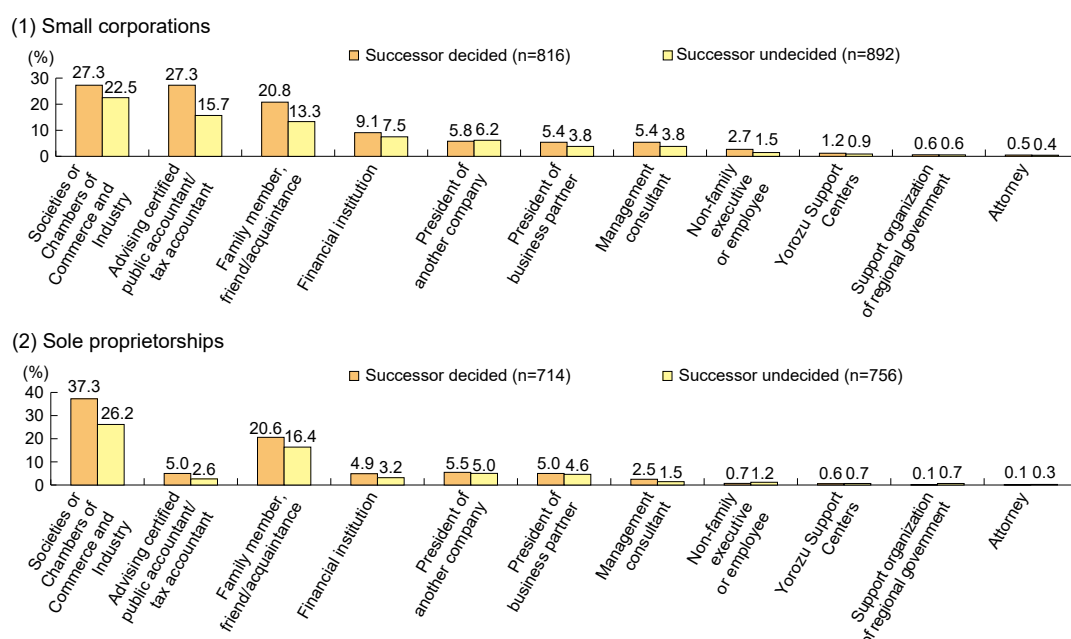


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-43 looks at who recommended to prepare to hand over management and assets, based on whether the successor was decided or not. In both cases, the most frequent responses were “societies or chambers of commerce and industry” and “family member, friend/acquaintance.” However, presidents at small corporations with successor decided were often recommended by their “advising certified public accountant/tax accountant,” “financial institution,” etc., to prepare to hand over

management and assets, but only a small percentage of sole proprietorships got a similar recommendation from such sources. It is possible that, in many cases, sole proprietorships do not have a relationship with an “advising certified public accountant/tax accountant” or “financial institution,” and even when they do, it is not a very close relationship. Presidents could benefit from getting encouragement to prepare for business succession by those familiar to them.

Fig. 2-2-43 Who recommended to prepare to hand over management and assets, based on successor decision status (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 3. The items “other” and “it has not been recommended by anyone” are not shown.

(3) Summary of “handover of management”

Section 1, subsection 2 looked at the state of preparation and the challenges associated with the handover of management.

The successor is a critical element in the handover of management, and succession from parent to child is still the practice at most in micro businesses.

At enterprises where the successor is not decided, selecting the successor and getting the successor’s consent are the most important challenges. Presidents need to clearly convey to the successor/candidate successor their intention to transfer management and have conversations with the successor concerning the handover. Moreover, speaking generally, enterprises have not taken measures or prepared for such challenges as securing personnel to assist the successor and establishing a post-handover business operations plan. In light of these points,

presidents need to think about business succession, select a successor, and start preparing (e.g., establishing internal systems in anticipation of management handover) before they reach retirement age.

This research has also shown that a high percentage of enterprises where the successor is decided sought advice from those around them and were recommended by someone around them to prepare for business succession. A variety of challenges are associated with business succession, so it is important that the president not deal with them alone, but seek out advice from those familiar to them. Not only that, but advising certified public accountants/tax accountants, financial institutions, and familiar support organizations like societies or chambers of commerce and industry should encourage presidents to think about business succession. This will help management handovers proceed more smoothly.

3. State of preparation for and challenges with asset handover

If a current president owns assets associated with the business or company, those assets also need to be handed over to the next generation when the enterprise changes presidents. Assets associated with the business or company include treasury stock and business assets. The procedures by which treasury stock and business assets are handed over are not always the same. The ideal procedures will vary depending on the individual circumstances. Using treasury stock as an example, in some cases, acquiring all the treasury stock at once is a big financial burden for the successor (both the tax and the acquisition itself). In other cases, a succession that disperses the treasury stock to many persons concerned could be an obstacle to management stability.

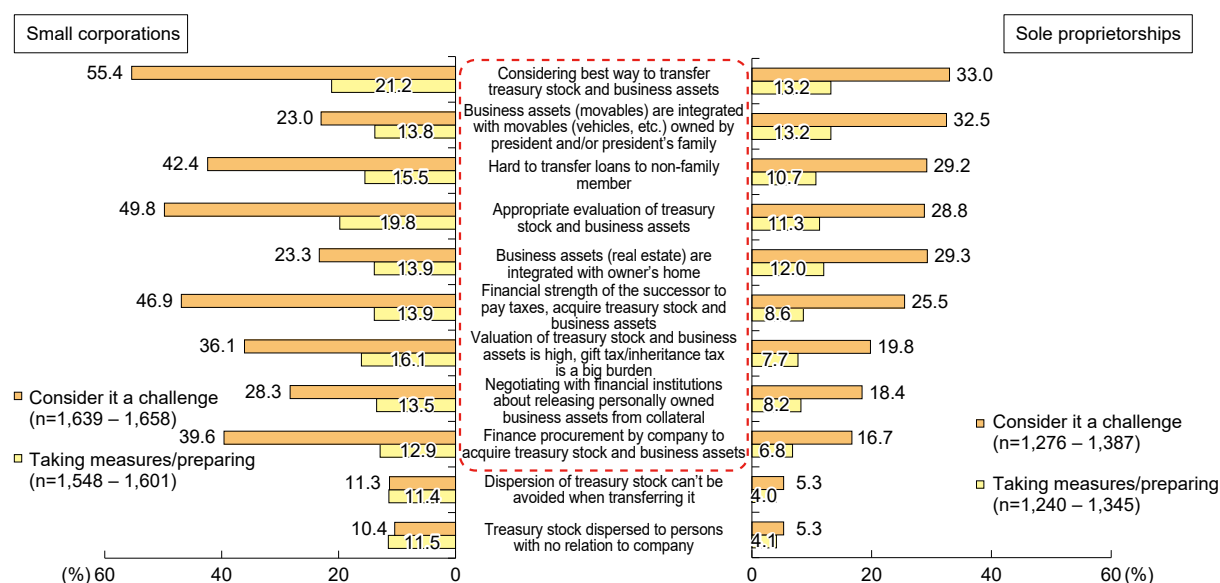
The response will also vary depending on whether the successor taking over management is from within the family or not. When the handover is to a family member, the usual procedure is to transfer treasury stock and business assets by gift or inheritance, which creates a gift tax or inheritance tax burden. If, on the other hand, the handover is to a non-family executive, employee, etc., the person who ends up owning the treasury stock and business assets may be different from the person who takes over management, but in many cases the assets are handed over for a price. It is important for the new president to procure the funds to purchase the assets and reach an agreement with the current president and the current president's family members.

In any case, there are a wide variety of considerations

with the handover of assets, and many of these require the expertise of a specialist. Subsection 3 looks at the situation with the handover of treasury stock and business assets owned by the president and gives an overview of the state of preparation and challenges.

At micro businesses, the relationship between the president and the company/business is often unclear. Particularly at sole proprietorships, presidents tend to do business and sign agreements under their own names with suppliers and customers and to own the business assets, so the individual and business are one and the same. Below, we will analyze the situation, paying close attention to differences in form of organization.

Fig. 2-2-44 looks at the issues to which survey-takers responded, "consider it a challenge" and "taking measures/preparing" in reference to handover of assets, based on whether the enterprise is a small corporation or sole proprietorship. Challenges common to small corporations and sole proprietorships include "considering best way to transfer treasury stock and business assets," "business assets (movables) are integrated with movables (vehicles, etc.) owned by president and/or president's family," and "hard to transfer loans to non-family member." On the whole, a higher percentage of small corporations than sole proprietorships felt there were challenges with handover of assets. On the other hand, a lower percentage of sole proprietorships than small corporations said that they were "taking measures/preparing."

Fig. 2-2-44 Asset handover challenges and state of measures and preparation for dealing with those challenges (small corporation or sole proprietorship)

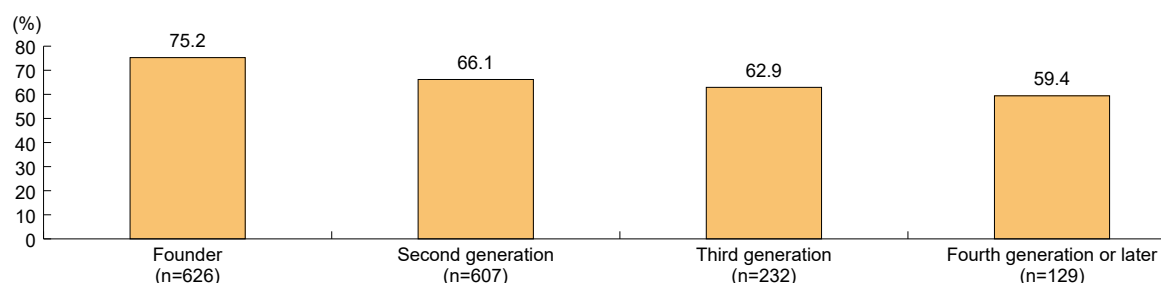
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
 2. For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”

Next, we look at the form in which small corporations own treasury stock and business assets and hand them over to the next generation. An overview of the situation is given separately for treasury stock and business assets.

Fig. 2-2-45 shows the average percentage of stock owned by the president, by the generation of the president (i.e., the enterprise's first president, second president, etc.). The average ownership by the founder was 75.2%, but the average for the fourth generation and beyond was 59.4%.

It is conjectured that with more generations of presidents, enterprise presidents own a smaller percentage of stock. Even with a greater number of generations of presidents, there is little drop in the percentage of stock owned by the presidents of small corporations. It is characteristic of these enterprises that the president amasses a certain percentage of the stock.

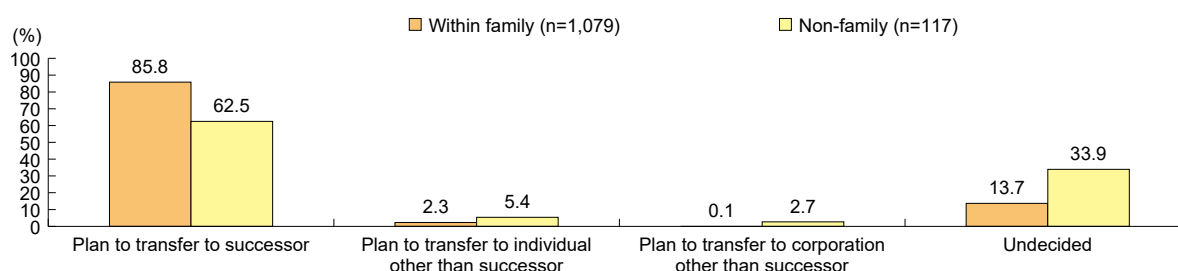
Fig. 2-2-45 Average percentage of stock owned by the president, by the generation of the president (small corporations)

Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-46 shows whom treasury stock is transferred to, based on the relationship with the successor/candidate successor. According to the figure, “plan to transfer to successor” was the answer in 85.8% of cases where the

successor/candidate successor is a family member, but where the successor/candidate successor is non-family, that percentage was only 62.5%, while the percentage that answered, “undecided” rose.

Fig. 2-2-46 Whom treasury stock is to be transferred to at small corporations (successor/candidate successor within family, non-family)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

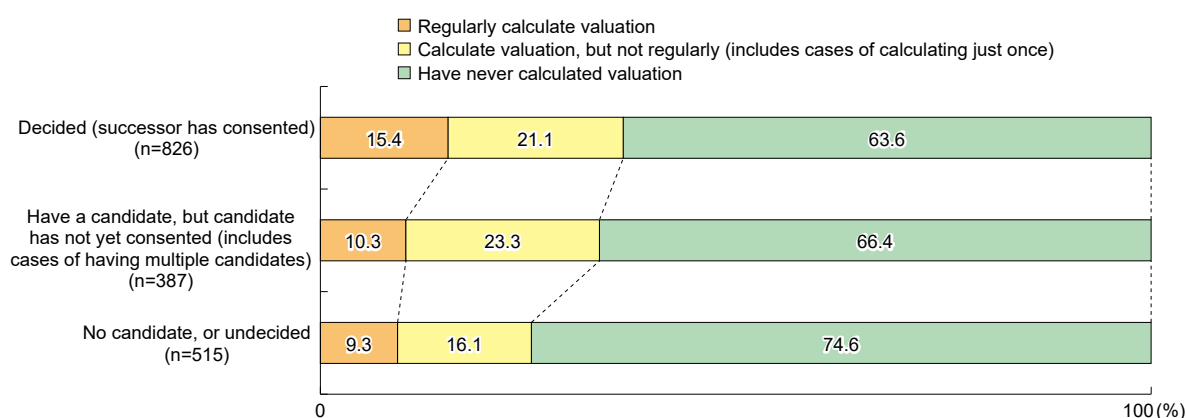
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor or candidate successor.
 3. Aggregated figures are exclusive of those that answered, “do not own treasury stock.”

Next, we look at the state of preparation enterprises have made for handover of treasury stock. Here, we look at the extent to which presidents are aware of the valuation of their enterprises’ treasury stock.

Fig. 2-2-47 shows the state of calculation of treasury stock valuation at small corporations, based on whether the enterprise’s successor was selected or not. Compared to enterprises where the successor was not decided, enterprises where the successor was decided chose the

answer, “regularly calculate valuation” more often. This indicates that the more progress an enterprise has made toward deciding on a successor, the more likely it is to have calculated the valuation of its treasury stock. However, rate of small corporation said that they “have never calculated valuation” of their treasury stock is high, indicating that they have low awareness of the valuation of their stock.

Fig. 2-2-47 State of calculation of valuation of treasury stock, based on successor selection status (small corporations)

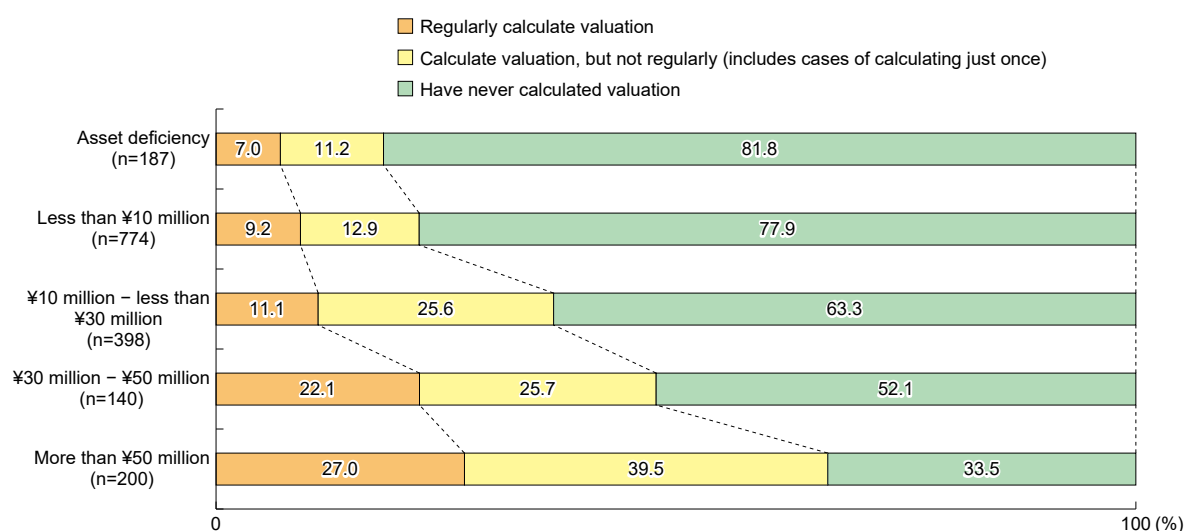


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

The valuation of an enterprise's treasury stock is determined by such factors as the company's profits and amount of net assets. Fig. 2-2-48 looks at the state of calculation of treasury stock at small corporations, by

amount of net assets. Enterprises with higher amounts of net assets were more likely to answer, "regularly calculate valuation," and thus more likely to be aware of their treasury stock valuation.

Fig. 2-2-48 State of calculation of valuation of treasury stock, based on amount of net assets (small corporations)

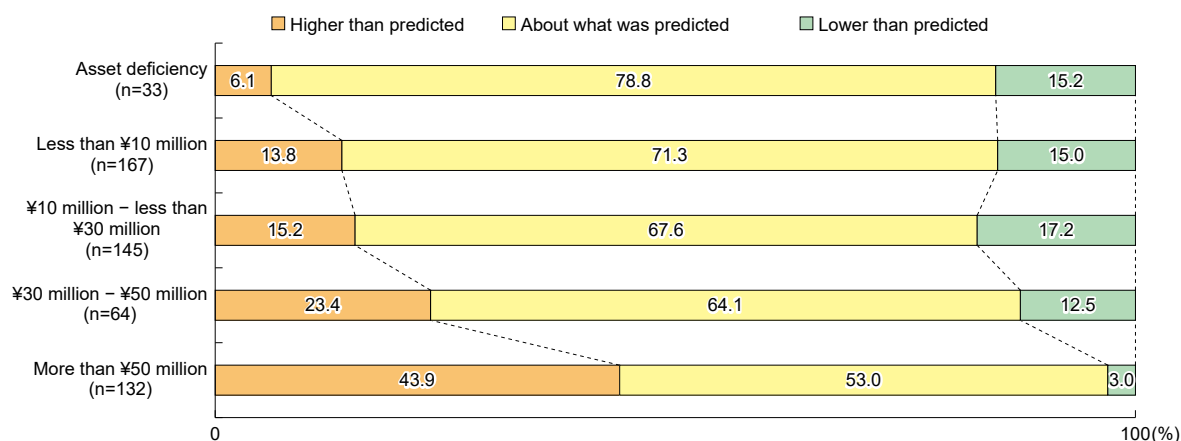


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, Fig. 2-2-49 looks at enterprises' impressions of their treasury stock valuation, for those that had calculated it, based on amount of net assets. A higher percentage

of enterprises with high amounts of net assets felt their treasury stock's value is high.

Fig. 2-2-49 Enterprises' impressions of their treasury stock valuation, based on amount of net assets (small corporations)



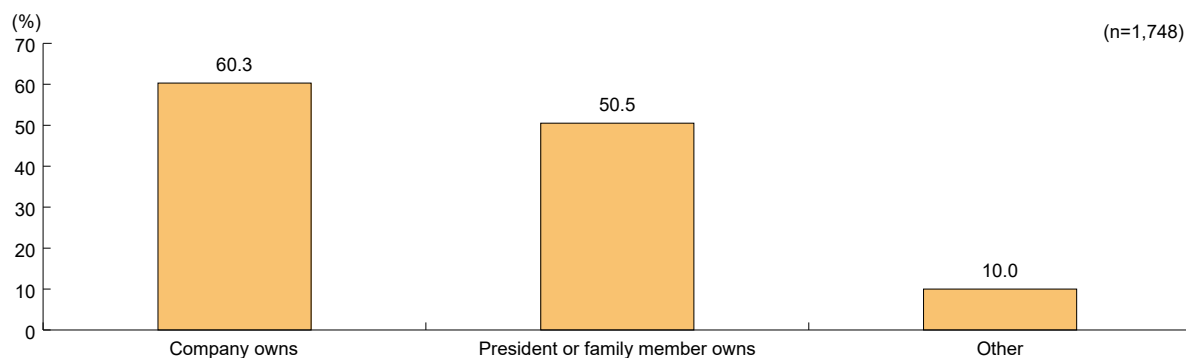
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "regularly calculate valuation" or "calculate valuation, but not regularly (includes cases of calculating just once)" regarding calculating valuation of treasury stock.

Next, we look at the state of ownership of business real estate (land and buildings of factories, shops, or offices) at small corporations. Fig. 2-2-50 looks at the

state of ownership of enterprises' business real estate. The percentage answering, "president or family member owns" was 50.5%.

Fig. 2-2-50 State of ownership of small corporations' business real estate



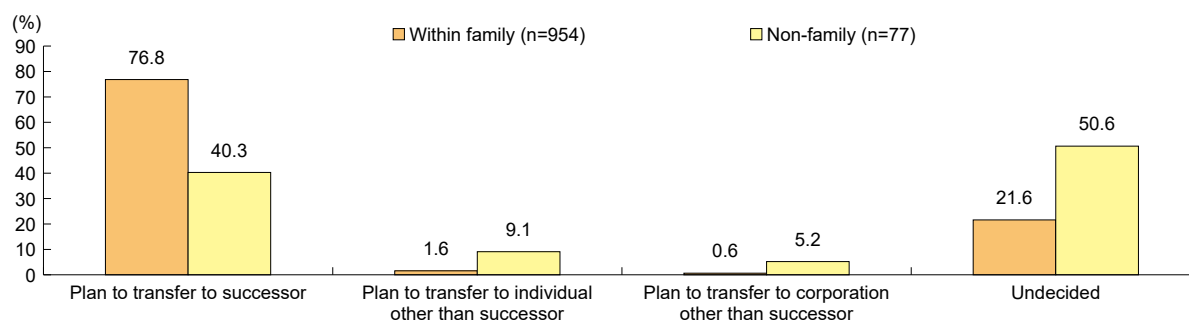
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, "would like to hand over to someone (includes transferring or selling business)" or "undecided about handing over management" regarding inclination about business succession.
 3. Here, "business real estate" refers to land and buildings, such as factories, shops, or offices.
 4. "Other" includes leasing, etc.

Fig. 2-2-51 looks at to whom business assets are to be transferred, based on the relationship with successor/candidate successor. If the successor/candidate successor is within family, the most frequent response (76.8%) was "plan to transfer to successor," but if the successor/

candidate successor is non-family, the most common response was "undecided," so it is conjectured that many presidents are not able to decide to whom business assets will be handed over.

Fig. 2-2-51 To whom business assets owned by the president are to be transferred at small corporations (successor/candidate successor within family, non-family)



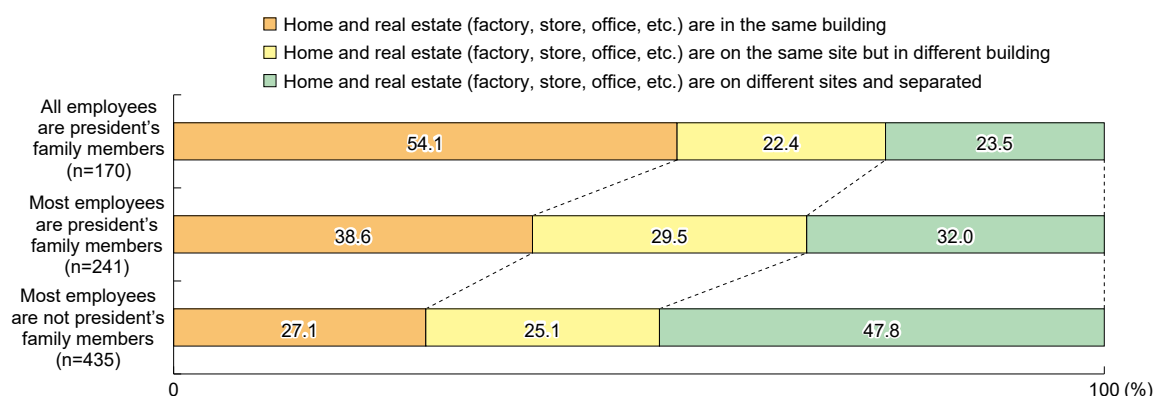
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, "within family" refers to those that answered, "spouse," "child," "child's spouse," "grandchild," "sibling," or "other family member" regarding successor or candidate successor. Also, here, "non-family" refers to those that answered, "non-family executive," "non-family employee," or "person from outside company" regarding successor or candidate successor.
 3. Aggregated figures are exclusive of those that answered the president "does not own business assets."

Next, we look at characteristics of business real estate owned by the president or president's family members. Fig. 2-2-52 shows the state of separation of business real estate and home owned by the president or president's family members, by employee structure. At small corporations near to the state of being family-run, i.e.,

those that answered, "all employees are president's family members" or "most employees are president's family members," there are many that are strongly identified with the president and president's family members. For example, there was a high percentage where the home and business real estate were the same building.

Fig. 2-2-52 State of separation of business real estate and home owned by the president or president's family members, by employee structure (small corporations)



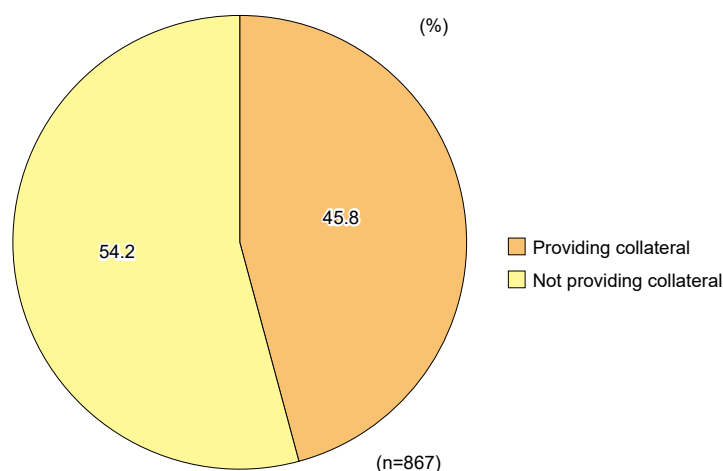
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "president or family member owns" business assets.

Fig. 2-2-53 looks at the percentage of enterprises at which business real estate owned by the president or president's family members is provided as collateral to a financial institution, etc. At 45.8% of small corporations,

such collateral is provided, meaning that business assets owned by the president or president's family members also have an important role to play for funds procurement.

Fig. 2-2-53 Percentage of enterprises at which business real estate owned by the president or president's family members is provided as collateral to a financial institution, etc. (small corporations)



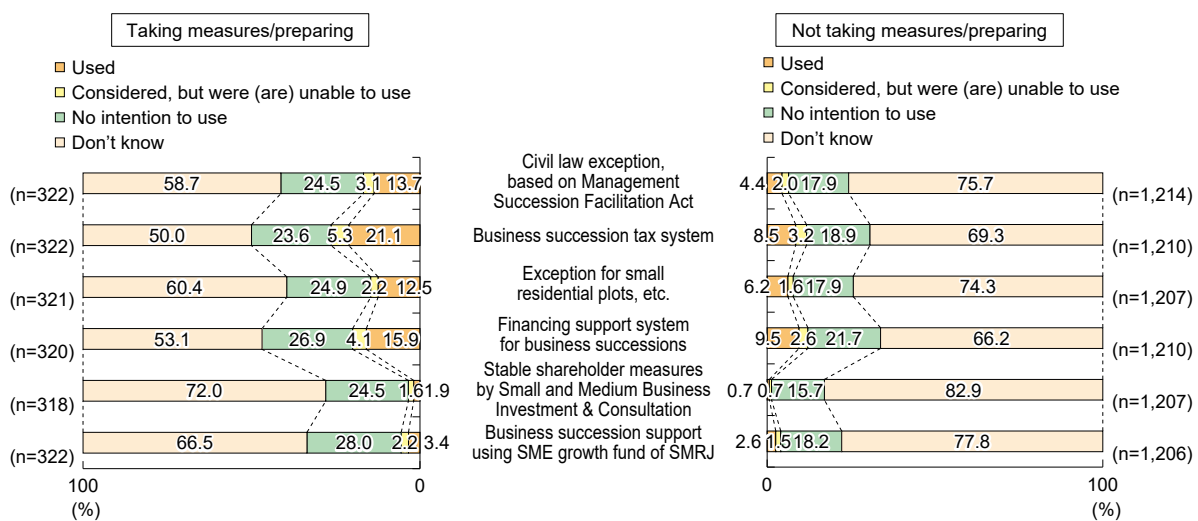
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "president or family member owns" business assets.

From this point, the analysis focuses on “considering best way to transfer treasury stock and business assets” (below, “best way to transfer”). With this item, out of all the challenges listed in Fig. 2-2-44, there was a particularly large gap between the percentage that responded, “consider it a challenge” and the percentage that answered, “taking measures/preparing.” This part looks at the state of recognition and usage of such measures and who enterprises went to for advice, by state

of measures and preparation. Fig. 2-2-54 looks at the state of recognition and usage of measures, by state of measures and preparation related to “best way to transfer.” Small corporations that answered, “taking measures/preparing” both had greater recognition and made more use of measures than did those that answered, “not taking measures/preparing.” It is possible that enterprises that are “not taking measures/preparing” do not know about these measures and therefore are not using them.

Fig. 2-2-54 State of recognition and usage of measures, by state of measures and preparation related to “best way to transfer” (small corporations)



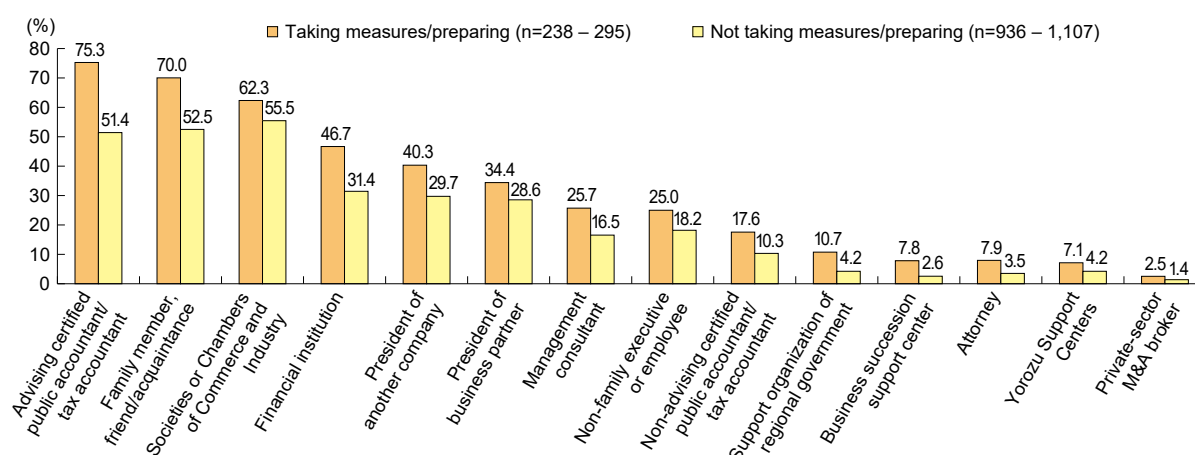
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”

Fig. 2-2-55 shows who presidents went to for advice in the past, based on the state of measures and preparation related to “best way to transfer.” It appears that enterprises that answered, “taking measures/preparing” had sought advice from those around them at a greater rate than did those that answered, “not taking measures/preparing.” Focusing on who small corporations went to for advice,

the percentage was above 60% each for “advising certified public accountant/tax accountant,” “family member, friend/acquaintance,” and “societies or chambers of commerce and industry.” It is conjectured they were gathering information about measures and preparation from sources of advice familiar to them.

Fig. 2-2-55 Who presidents went to for advice on business succession in the past, by state of measures and preparation related to “best way to transfer” (small corporations)



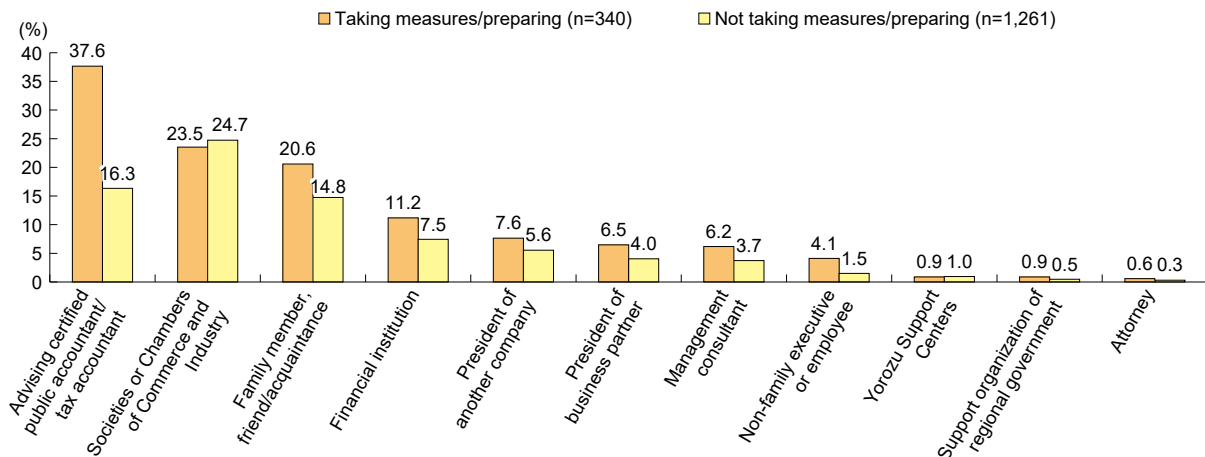
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Fig. 2-2-56, focusing on the encouragement presidents get from those around them, looks at who recommended preparing for the handover of management and assets, based on the state of measures and preparation related to “best way to transfer.” It appears enterprises that answered,

“taking measures/preparing” had been recommended to prepare by an “advising certified public accountant/tax accountant” at a greater rate than did those that answered, “not taking measures/preparing.”

Fig. 2-2-56 Who recommended to prepare to hand over management and assets, based on the state of measures and preparation related to “best way to transfer” (small corporations)



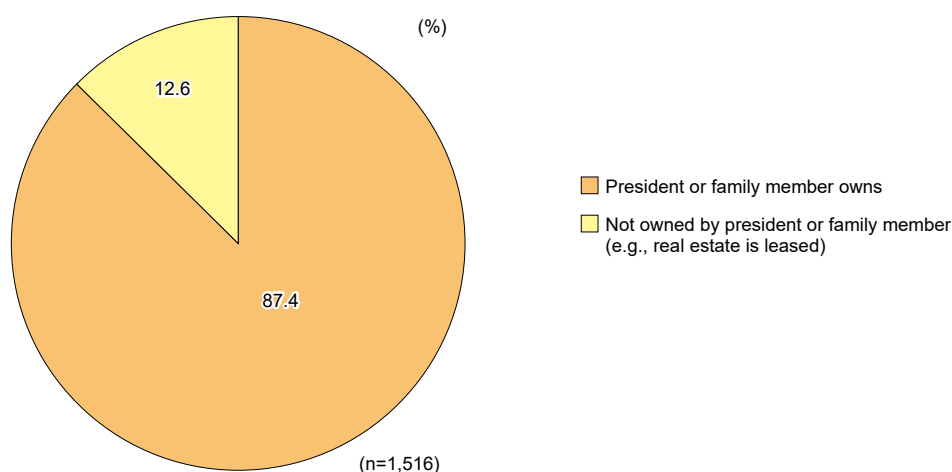
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. The items “other” and “it has not been recommended by anyone” are not shown.

This part looks at handover of assets at sole proprietorships. To begin, we look at the state of ownership of business real estate (land and buildings of factories, shops, or offices) at sole proprietorships. Fig. 2-2-57 looks at the state of ownership of enterprises'

business real estate. The percentage saying, "president or family member owns" was 87.4%, meaning that many sole proprietorships need to consider the handover of business real estate.

Fig. 2-2-57 State of ownership of sole proprietorships' business real estate



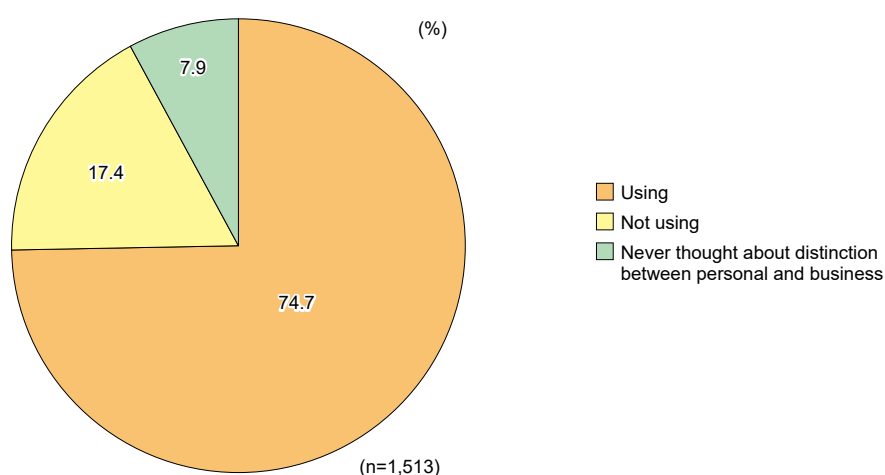
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Aggregates those that answered, "would like to hand over to someone (includes transferring or selling business)" or "undecided about handing over management" regarding inclination about business succession.
2. Here, "business real estate" refers to land and buildings, such as factories, shops, or offices.

Fig. 2-2-58 shows the percentage of sole proprietorships where vehicles or other movables owned by the president or president's family members were being used for business purposes. The percentage answering, "using"

was 74.7%, indicating that at many sole proprietorships, personally owned movables are identified as business movables.

Fig. 2-2-58 Percentage of enterprises where movables (vehicles, etc.) owned by the president or president's family members were being used for business purposes (sole proprietorships)

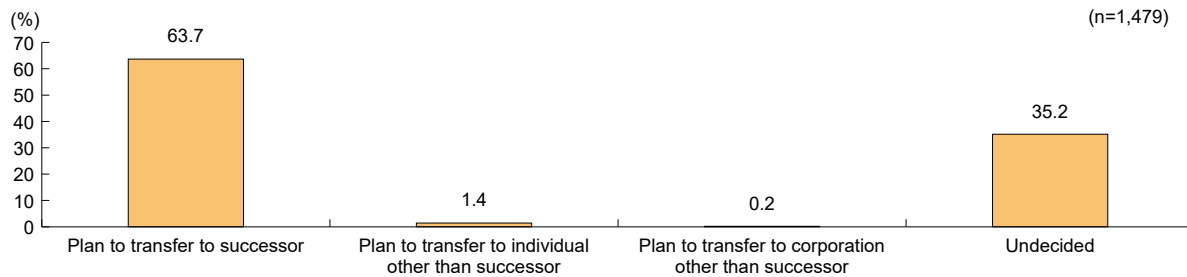


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at to whom business assets owned by the presidents of sole proprietorships are to be transferred (Fig. 2-2-59). The most common response (63.7%) from

sole proprietorships was “plan to transfer to successor,” but there were also some sole proprietorships that had not considered the issue, as 35.2% answered, “undecided.”

Fig. 2-2-59 To whom business assets owned by presidents of sole proprietorships are to be transferred



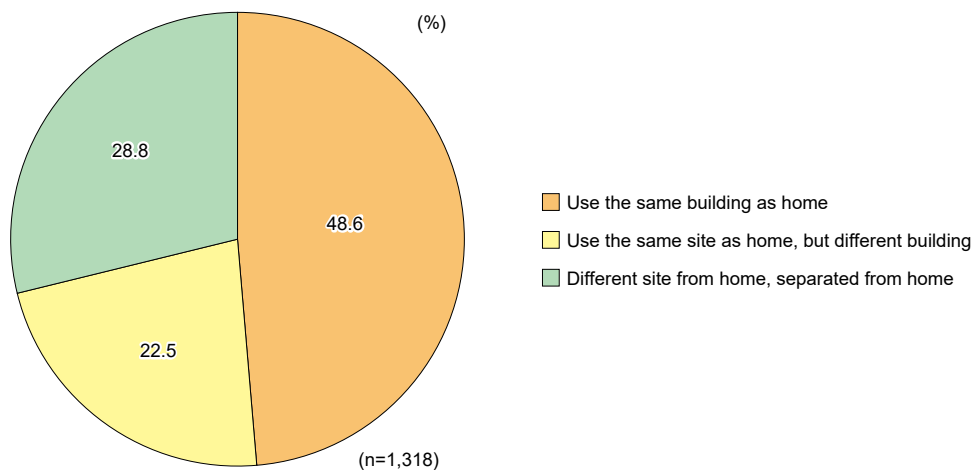
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregated figures are exclusive of those that answered “do not own business assets.”

Next, we look at the characteristics of business real estate owned by sole proprietorships’ presidents or president’s family members. Fig. 2-2-60 shows the state of separation of business real estate and home owned by

the president or president’s family members. The home and business real estate were the same building in 48.6% of cases, meaning that at many businesses, the home is strongly identified as a business asset.

Fig. 2-2-60 State of separation of business real estate and home owned by the president or president’s family members (sole proprietorships)



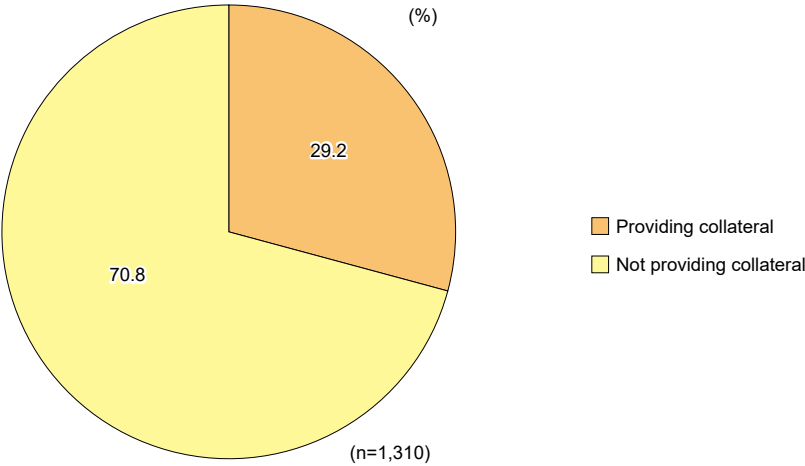
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Aggregates those that answered, “president or family member owns.”
2. Here, “business real estate” refers to land and buildings, such as factories, shops, or offices.

Fig. 2-2-61 looks at the percentage of enterprises at which business real estate owned by the president or president’s family members is provided as collateral to a financial institution, etc. The results show that while 45.8% of small corporations provide such collateral,

only 29.2% of sole proprietorships do so and therefore business assets owned by the president or president’s family members there play a relatively small role in funds procurement.

Fig. 2-2-61 Percentage of enterprises at which business real estate owned by the president or president’s family members is provided as collateral to a financial institution, etc. (sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

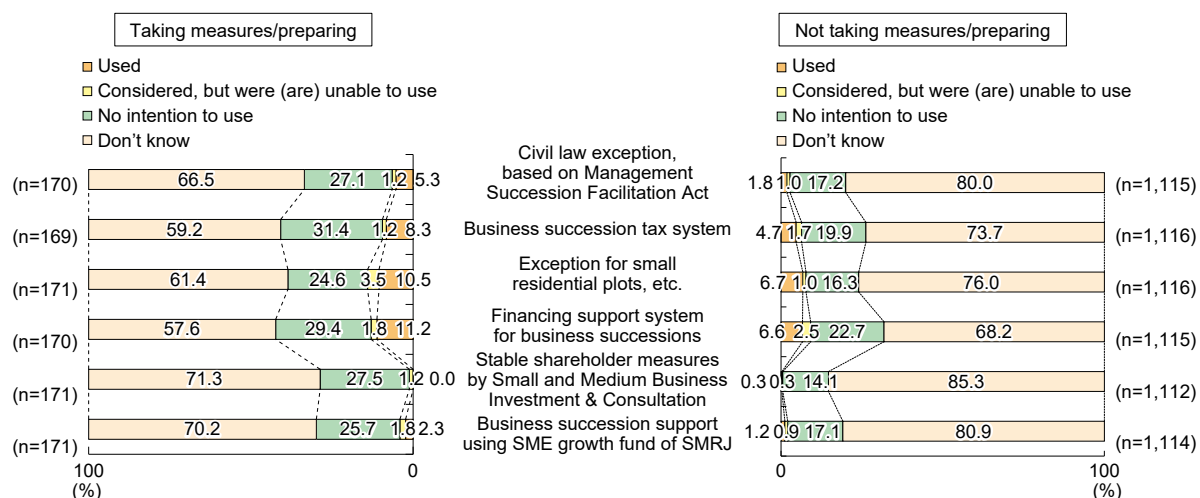
Notes: 1. Aggregates those that answered, “president or family member owns.”
2. Here, “business real estate” refers to land and buildings, such as factories, shops, or offices.

Next, we look at the state of recognition and usage of measures and who enterprises went to for advice, by state of measures and preparation, with a focus on “best way to transfer” at sole proprietorships, as we did earlier for small corporations.

To begin, we look at the state of recognition and usage of various support measures concerning handover of assets. Fig. 2-2-62 looks at the state of recognition and usage of measures, by state of measures and preparation

related to “best way to transfer.” It was also the case at sole proprietorships that those who answered, “taking measures/preparing” both had greater recognition and made more use of measures than did those that answered, “not taking measures/preparing.” It is possible that enterprises that are “not taking measures/preparing” do not know about these measures and therefore are not using them.

Fig. 2-2-62 State of recognition and usage of measures, by state of measures and preparation related to “best way to transfer” (sole proprietorships)



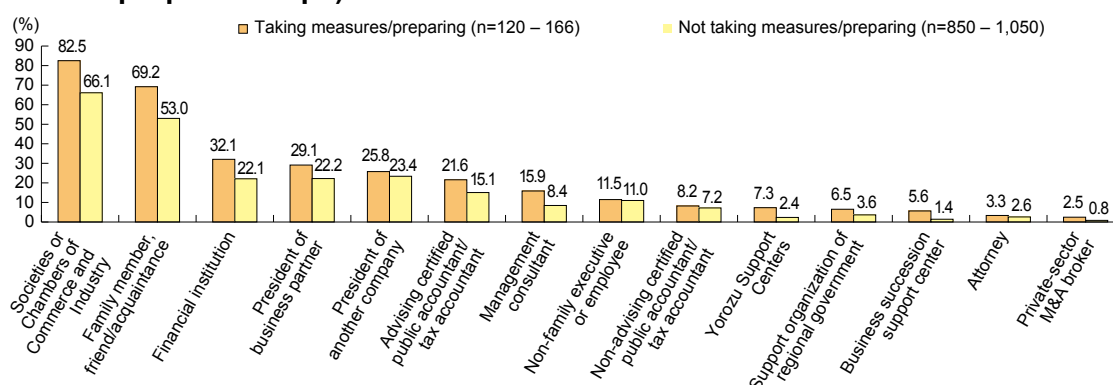
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”

Fig. 2-2-63 shows who presidents went to for advice in the past, based on the state of measures and preparation related to “best way to transfer.” A high percentage of enterprises that answered, “taking measures/preparing” had sought advice from those around them. Focusing on who sole proprietorships that were “taking measures/

preparing” went to for advice, the percentage was above 50% each for “societies or chambers of commerce and industry” and “family member, friend/acquaintance.” It is conjectured they were gathering information about measures and preparation from sources of advice familiar to them.

Fig. 2-2-63 Who presidents went to for advice on business succession in the past, by state of measures and preparation related to “best way to transfer” (sole proprietorships)



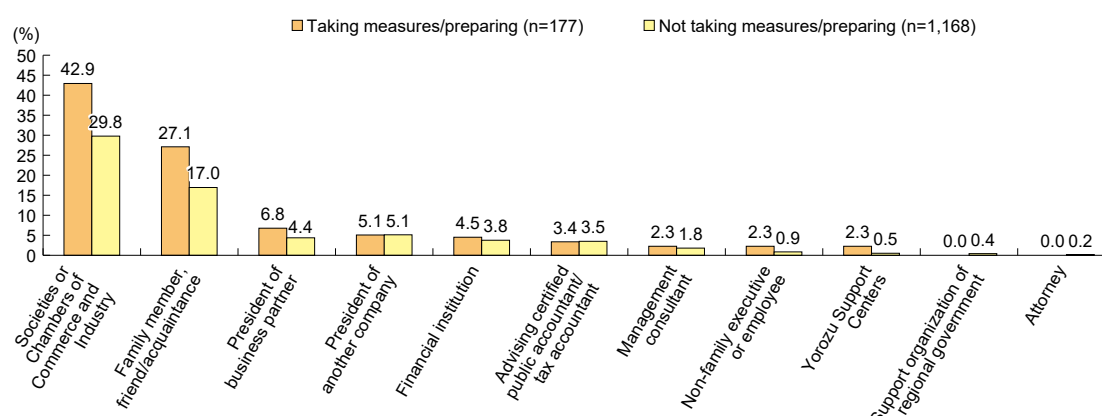
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”
 2. Total does not always equal 100% as multiple responses were possible.
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Fig. 2-2-64, focusing on the encouragement presidents get from those around them, looks at who recommended preparing for the handover of management and assets, based on the state of measures and preparation related

to “best way to transfer.” A high percentage of those that answered, “taking measures/preparing” had been recommended by “societies or chambers of commerce and industry” to prepare.

Fig. 2-2-64 Who recommended to prepare to hand over management and assets, based on the state of measures and preparation related to “best way to transfer” (sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. The items “other” and “it has not been recommended by anyone” are not shown.

(3) Summary of “handover of assets”

Section 1, subsection 3 looked at the state of preparation and the challenges associated with the handover of assets.

At micro businesses, challenges include “considering best way to transfer treasury stock and business assets” and “business assets (movables) are integrated with movables (vehicles, etc.) owned by president and/or president’s family.” At micro businesses, business assets and personal assets are often not separated to begin with, which is a challenge for succession. Those that wish to carry out a business succession need to take steps to clearly separate these business assets and personal assets.

Thus, small corporations, and sole proprietorships each face different challenges related to the handover of assets, but to figure out the best way to hand them over, they need to start preparing before it is time for the succession to happen. Examples of such preparation include having

the successor procure the funds to acquire treasury stock and business assets, considering the best way to transfer them, and separating business assets and personal assets. The following two points are critical for ensuring that the handover of assets goes smoothly. First, the president needs to understand that the handover of assets takes time, as noted above, and he or she needs to directly seek advice from advising certified public accountants/tax accountants, financial institutions, and the like and to take measures before it is necessary to actually carry out the succession. Second, presidents should gain a better recognition of various existing measures to prepare for business succession, while advising certified public accountants/tax accountants, financial institutions, and the like should increase their understanding of such measures and make them better known to micro businesses and encourage presidents to prepare for succession.

Column 2-2-4 Financing systems for business succession

As we saw in this section, challenges related to the handover of assets include the burden of paying gift tax/inheritance tax on treasury stock and the financial strength of the successor to acquire treasury stock and business assets. The Japan Finance Corporation provides financing for the funds needed for business succession (Fig. Column 2-2-4).

Fig. Column 2-2-4 Overview of Business Succession, Integration, and Stimulus Support Funds System

Who is eligible for a loan	<ol style="list-style-type: none"> Enterprises meeting certain conditions conducive to maintaining the industrial vitality of the regional economy, and which are passing down a business that is economically or socially useful through the transfer of the business, transfer of stock, merger, etc. Enterprises working to continue a business through the stable securing of management rights and which fall under any of the following <ol style="list-style-type: none"> Enterprises passing down a business through the transfer of the business, transfer of stock, merger, etc., from a party that is struggling to continue the business, e.g., because of a lack of a successor Corporations that are, for example, acquiring treasury stock or business assets from shareholders, etc. Successors that are, for example, acquiring business assets (sole proprietors) Holding companies that are acquiring stock or business assets of an operating company
How loans can be used	As equipment funds or long-term working capital necessary for business succession/integration
Loan limits	SME Units: ¥720 million (of which, up to ¥250 million for working capital) Micro Business and Individual Units: ¥72 million (of which, up to ¥48 million for working capital)
Loan interest rates	Working capital and equipment funds: standard interest rate, special interest rate
Loan periods	Equipment funds: Within 20 years <period of deferment not exceeding 2 years> Working capital: Within 7 years <period of deferment not exceeding 2 years>
Financial institutions handling loans	Japan Finance Corporation (SME Units and Micro Business and Individual Units) Okinawa Development Finance Corporation

Case 2-2-1 Hayashi Honten Co., Ltd.

A company that took the opportunity of a management succession to go back to its origins in refined sake brewing and established its own brand

Hayashi Honten Co., Ltd. (employees: 10; capital: ¥10 million), located in Kakamigahara City, Gifu Prefecture, is a long-established brewer of refined sake within its region, having been established in 1920.

Company President Rieko Hayashi was appointed as the fifth President of Hayashi Honten in 2007. In part because she had no brothers, Ms. Hayashi had strongly felt from her early childhood that it was her mission to take over the sake brewery that had been handed down in her family for generations, even to the point that "I will become a sake brewer!" is written in her kindergarten graduation album. Institutions at which brewing can be studied are few even in Japan, but, having no desire to find any other job, Ms. Hayashi progressed to the Department of Fermentation Science in the Faculty of Applied Bioscience of the Tokyo University of Agriculture. Following graduation, she chose her course with consideration of taking over management of the family business, for example gaining experience of sales in a major beer brewing company. After quitting the beer company, Ms. Hayashi worked in the family business. One day, her father, then the company's President, suddenly announced in front of company employees that from next week she would be made President, and she assumed the management of the company. Looking back on that time, Ms. Hayashi says, "At that time, my father had turned 61, and had concerns for his health. Seeing other managers of his generation passing over the reins, he felt that it was time for him to do so also. I had also thought that I would take over one day, but I was not ready in myself, and I didn't know where to start."

During her father's term as President, wholesale business was the company's main focus, with 90% of its sales base represented by wholesale, and around 10% by the brewing of refined sake. However, competition had become fierce against the background of an ongoing decline in demand for sake, and it was becoming difficult to ensure profits as a wholesale business. Following the change in President, a business transformation got underway, with the company deciding to go back to its origins and make the brewing of refined sake its main business, focusing its efforts on the sale of its own sakes. Ms. Hayashi has the following to say about that time: "We made preparations to go back to focusing on brewing refined sake, but the sakes brewed by the company were mainly low-priced beverages known as "ordinary sakes." In other words, we possessed little technical expertise in the brewing of high-value-added refined sakes with special designations, such

as *junmai* or *junmai ginjo*, and we had almost no clients among stores specializing in locally-brewed sakes. Even when we tried for sales of our existing brand, in many cases potential clients didn't want to meet us and we were turned away. I felt that it was essential to "forge my weapons and hone my weapons" while continuing with sales activities, and so I decided to create a new sake and establish a new brand."

Ms. Hayashi therefore proceeded with development, aiming to realize a product with a back story that would convince retailers to handle it. She made improvements to the brewery to enable the creation of excellent sakes, and she made equipment investments to increase quality, and in April 2011 her new brand, "Hyakujuro," made its appearance. Hyakujuro is named after the kabuki actor Ichikawa Hyakujuro, whose career flourished from the Meiji to the Showa eras in Kakamigahara City. 1,200 cherry trees donated by the actor for planting along the Shinsakai River later came to be known as the "Hyakujuro sakura," and the area in which they are planted is loved by local residents. Ms. Hayashi gave the actor's name to her sake because she similarly wished to create a product that would be loved by local people and people throughout Japan.

Ms. Hayashi faced numerous hardships in transforming the company's business and launching a new brand. It was necessary to make a transition from selling exclusively to the previous clients of the company's wholesale business and to cultivate new clients for sales, and some employees quit the company. In the refined



Company President, Rieko Hayashi

sake brewing department itself, she faced difficulties in ensuring that techniques were passed on and in fostering human resources to engage in the production of a new sake. Today, Hyakujuro has grown to become the company's flagship product, and sales channels are steadily expanding as a result of initiatives including efforts to cultivate new clients in Kanto region and Tokyo area and participation in trade fairs. The sake is even exported overseas, to countries including the US, England and France.

Ms. Hayashi says "As a sake brewer, the further I go into the production of sake, the more I feel the depth and the potential of Japan's sake culture. Sake consumption is declining, but our low-key sales activities are paying off, and I am happy that our customers are able to enjoy our products in contexts that enrich their lives. Incorporating new changes inspired by a constant consideration of scenarios in which sake can be enjoyed into those aspects of sake that are unchanging, and continuing to provide these products to our customers - I believe that this is exactly the spirit of the Hayashi Honten Brewery."



The line-up of the new brand, Hyakujuro

Case 2-2-2 Kani Shoyu GSK

A long-established company that made efforts to reorganize its management following a management succession in order to protect tradition

Kani Shoyu GSK (employees: 5; capital: ¥10 million), located in Usuki City, Oita Prefecture, manufactures and markets miso and shoyu (soy sauce). A year before the former daimyo of Mino, Inaba Sadamichi, was relocated to Usuki, a seven-man team of samurai, "Inaba's seven," was sent to the area on a reconnaissance mission. One of these men, Kani Magoemon, started the company in 1600, at its present location. The company is the oldest in Kyushu, and the current President, Aiichiro Kani, is the 12th in succession. The company's miso, "Usuki Miso," and its shoyu, "Kani Shoyu," have continued to be popular, chiefly in the local region.

Mr. Kani originally had no intention of succeeding to the company business, and worked in a sales position for a scientific instrument sales company based in Kanagawa Prefecture, but returned to Usuki to help out in the family business, in part because his father, the then-President, was not in good health. He consulted with the local Chamber of Commerce and Industry, representatives of the financial institutions the company dealt with, and people involved in the local shopping area, and, given also that he was the eldest son, he determined to succeed his father in the business. In 2007, Mr. Kani was appointed President.

Amid an ongoing shrinkage in the market for miso and shoyu, the company's business performance had been worsening since before Mr. Kani succeeded to the presidency, and conditions for management were also tough. At the time that Mr. Kani took over the business, the burden of loans from financial institutions was high, and in order to secure sufficient profit to allow the loans to be repaid, it would be essential to make efforts to reorganize the business as soon as possible. Mr. Kani looks back on that time as follows: "When I came back, the company had lost its vigor, and it seemed as if it would close down if things went on as they were. I felt that I had to do something beyond just coming back, and so I decided to work to reorganize the company in tandem with my wife."

Mr. Kani therefore devoted himself to making facility investments. First, he refitted what had been the company's office area as a store, seeking to stimulate demand by targeting tourists. He positioned souvenirs at the front of the store, and set up an area in which customers could relax and drink tea. In the store, which had not changed its appearance since its foundation, Mr. Kani not only sells miso and shoyu by the measure, as has been done for generations, but also offers ponzu sauces, dressings and other products only available in his store. He also worked to develop new products, and offered processed goods using miso and shoyu on the shelves. One of these products is "miso soft cream," which features on the popular menu of the store's tea area. This product combines an additive-free miso sauce produced by the company and thick cream, and the two are judged to go exceptionally well together. Mr. Kani claims that the financial institutions with which his company deals were impressed by these initiatives, and as a result became more amenable, and began to offer him consultations.

The company has recently also begun to sell its products in local department stores and supermarkets, and has also commenced efforts to open up new sales channels, for example by holding special events for around half of the month. Mr. Kani says, "Of course you have to consider increasing your profits, but my main consideration is keeping the business going, and how to achieve that. The business environment remains severe, but I want to continue operating this business into the future, respecting the traditions of shoyu and miso making without taking the easy path and cutting our prices. This is important for protecting a family business that has continued for more than 400 years. Bearing that in mind, I want to pursue things as prudently as possible."



President Aiichiro Kani and his wife



The company's renovated store

Case 2-2-3 Raisyuken

A sole proprietor business whose management passed from the previous generation to proprietors who re-created the restaurant with a focus on their own era

Raisyuken (employees: 3; sole proprietor business), located in Satte City, Saitama Prefecture, is a Chinese restaurant established in 1969 by the previous manager, Kenji Kanakubo. Since its establishment, the restaurant has sold home-made chijire noodles. To make these noodles, which satisfy the three most important requirements of elasticity, flavor and umami, the restaurant uses a flour called "*hanamanten* blend," a blend of the ultra-strong wheat flour "*hanamanten*" and the medium-strength wheat flour "*ayahikari*," produced in Saitama Prefecture. The restaurant's shumai and gyoza dumplings are also all hand-made, including the skins, and each one is carefully produced using the method devised by the restaurant's founder.

After graduating from high school, Koichi Kanakubo, the founder's son and present proprietor of the restaurant, trained in a Chinese restaurant in Yokohama and helped out in the family restaurant. Mr. Kanakubo's wife, now the proprietress of the restaurant, also helped out following their marriage. Ms. Kanakubo says that when the couple were first married, 15 years previously, something bothered her about the restaurant. "When I came to this restaurant, the layout of the toilets bothered me. The women's toilets were further inside than the men's toilets, and I hated having to pass through the men's toilets to reach the women's. The food was delicious, and I wanted to invite my friends to come, but I was embarrassed about the toilets, and so I couldn't."

For the previous generation, the restaurant had been one that produced good food for local customers, but Ms. Kanakubo had vague anxieties over whether the restaurant was suitable now that she and her husband were in charge. She looks back on the restaurant at that time as follows: "There was a banquet area, but the alcohol menu only offered two choices, bottled beer or shochu with oolong tea, but at the same time there was an extensive menu of dishes that didn't get ordered often. The restaurant didn't have an integrated concept."

Amid this situation, a turning point suddenly came. By chance, at the first seminar that she had ever participated in, Ms. Kanakubo learned of the existence of a system of subsidies enabling micro businesses to continue operating, and in 2014 the couple applied and were accepted. They say that it was the renovation of the toilets that had long bothered Ms. Kanakubo that made them eligible for a subsidy. Ms. Kanakubo looks back: "I'd always felt apologetic towards our customers, in particular our female customers, for the toilet situation, and so I was delighted to be able to renovate them. When we turned our hand to one thing, other things that bothered us started to come up, and we began to want to make the restaurant the way we'd always thought it should be." This led to improvement of the interior fittings, for example changing the wallpaper and installing brighter lights. However, they realized that while the change to the interior fittings



The restaurant following its refurbishment

and the toilets would have an impact on their existing customers, they would have no effect on customers considering trying Raisyuken for the first time. Given this, in 2014 they completely refurbished the restaurant, including the exterior.

To attract new customers, they also set about revising the menu. The most popular of their specialty dishes was a vegetable and noodle soup that was popular chiefly among children and elderly customers. However, the Kanakubos felt that the flavor of the dish had little impact for people of their own generation, in their 30s and 40s. The couple therefore developed a cheese curry ramen with a lot of impact to help them attract customers of a wide range of ages.

The remodeling of the restaurant and the development of a new menu were conducted in consultation with Mr. Kanakubo's father, and went ahead sometimes in the face of quarrels. Ms. Kanakubo looks back as follows: "Koichi's father sometimes objected to things, but seeing how devoted we were to the task, he gradually came around and started to support us. One day he suddenly muttered "This restaurant is yours now," and out of the blue passed over responsibility to us."

Since taking over the management of the restaurant also, the Kanakubos have been proceeding with new initiatives. An acquaintance made a suggestion to them regarding opening a stall in a food court in the Philippines, and as they had actually been wanting to open a restaurant overseas, they did so in February 2017. Ms. Kanakubo says, "I think that from now on, we cannot just sit back and wait. We are participating in events all over, working to attract customers who are unfamiliar with us and have them become fans. I believe that in the future, continuing to challenge ourselves without letting up will be important to ensuring the business goes on."



Cheese curry ramen, one of Raisyuken's signature dishes

Case 2-2-4 Seiunkan

A sole proprietor business developed by the successor to its management after realizing the potential of the family business

Seiunkan (employees: 3; sole proprietor business), located in Komoro City in Nagano Prefecture, is a minshuku (guesthouse) operating in a refurbished 150-year-old Japanese-style house. The business was started by the current proprietor's grandfather in 1962. The elevation of Komoro's Nukachi district, where Seiunkan is located, is high, making it cool in summer. In the past it was a "student village,"¹⁰⁾ and as such a bustling area. Over time, the role of the "student villages" gradually faded, and with the opening of the Nagano Shinkansen, the hostel-style lodging of student seminars and circles that increased in their place flowed in the direction of Karuizawa. While the Nukachi district once boasted 15 or 16 minshuku, as the number of visitors declined, and also due to the aging of their proprietors, minshuku closed one after another, until today there are only four left. The closure of the Seiunkan itself was considered during the management of the previous proprietor, the present proprietor's mother (now 74).

The previous proprietor's only son, Kazunobu Miyasaka (47), worked for a local company and had no intention of taking over the management of the business. The turning point for Mr. Miyasaka was meeting a group of young people who came from Tokyo to have an experience of farming. They rented a nearby fallow field to allow them to engage in "once-a-month farming," and proceeded to plant and harvest rice. At first only a few young people came for this experience of farming, but within one or two years, they started to bring friends with them, and at its largest the group reached more than 20 people. Over time, in addition to agriculture, the young guests developed an interest in activities such as making miso, pounding mochi and making soba. Mr. Miyasaka says, "For people raised in Komoro, rice planting and harvesting, and miso and mochi making too, are just everyday sights. But while I spent time with these young people, I realized that for people who live in the city, these are fresh experiences."

Having realized the new potential of the family business while helping out on weekends, Mr. Miyasaka resolved to quit his job and take over the business five years ago. Based on a concept of country living and experience of farming, he relaunched the Seiunkan as a guesthouse at which visitors could experience rural life. Mr. Miyasaka says, "The role of minshuku aimed at students is over, and it wasn't a business that I felt I should be taking over. But I realized that if I could use the foundations that existed here effectively, the idea would have appeal. I thought that it would be a waste to close the business. The place had the atmosphere of an establishment that offered cheap single rooms to students, but I installed washlets on the toilets, conducted renovations so that hot water is available from the washbasins, built a pizza oven in the backyard, and installed a Goemon-buro bath in which visitors can relax and look at the stars. I didn't know whether the number of customers would increase the way I thought and I was very anxious, so much so that I didn't borrow any money from the bank, but conducted the renovations within the scope of the profits that we took in."



Kazunobu Miyasaka, the Seiunkan's proprietor

Since last year, Mr. Miyasaka has also been making efforts to attract guests from overseas. He is making active efforts to publicize his minshuku as a place to stay at which guests can experience Japanese culture, for example by creating an English version of the minshuku's homepage, and registering on sites that provide details of overseas accommodation facilities. Little by little, the number of guests from Europe and the US who want to spend a quiet week in the Japanese countryside is increasing. "I was helped in making it possible to accept overseas guests by a retired trading company employee who I knew from regional promotion events in the past."

10) Student village is an area with many guesthouses for students from the city area to concentrate on their studies which were used in their summer vacation in the 1960s.

After his retirement, he had set up a holiday home in Komoro, and he was good at English. He helped me with all the necessary arrangements, such as creating an English-language website, pamphlets and explanatory material for the rooms." As this shows, actively seeking help from outside is also important in developing a new business.

With regard to the future of the business, Mr. Miyasaka says that rather than simply concentrating on his own minshuku, it will be important to create mechanisms to benefit the entire region. "We decided that we would attempt to make wine in the Nukachi area, and the year before last we launched a group and established a vineyard. It takes five years to cultivate the vines and be able to harvest grapes, and so it will be another three years until we can actually produce any wine, but I believe that the number of tourists will increase if this becomes a wine-producing area. I am also participating in an initiative in which young artists from Japan and overseas are invited to stay and offered support to produce works of art. If artists stay here, the number of tourists coming to see their artworks will increase, and so the number of guests will increase, and if they consume locally, it will benefit the entire region."

Mr. Miyasaka looks back on his efforts as follows: "In this area, we are still considered youngsters, and it has been difficult to win the approval of the older residents for these types of initiatives. More recently, though, they have gradually come to understand what we're doing. When young people come to the region, it also invigorates the older people, and they seem to enjoy themselves. We even have older people who want to communicate with our guests from overseas, and have started learning English. I think that it's really important to have a purpose in life like this." It can be predicted that Mr. Miyasaka's enthusiasm will communicate itself to the people around him, and will aid in the revitalization of his region in the future.



The Seiunkan's 150-year-old main building

Section 2 State of consideration and challenges with business transfer, sale, or integration (M&A) and business closure

Business transfer, sale, or integration (M&A) is increasingly becoming an alternative to business succession that hands over management and assets to a family member, employee, etc. Section 2 begins by looking at the state of consideration and challenges with

business transfer, sale, or integration (M&A). Some managers, on the other hand, decide to close business instead of handing it over. We will also take a closer look at the state of consideration and challenges with business closures.

1. State of consideration and challenges with business transfer, sale, or integration (M&A)

In this chapter, “business transfer, sale, or integration (M&A)” means handing over a company’s business to someone other than a family member, executive, or employee by transfer or sale. A business transfer, sale, or integration (M&A) can be an effective option for handing over the management resources an enterprise has fostered when there is no successor among the family members, executives, or employees.

Below are four ways micro businesses can carry out a business transfer, sale, or integration (M&A).¹¹⁾

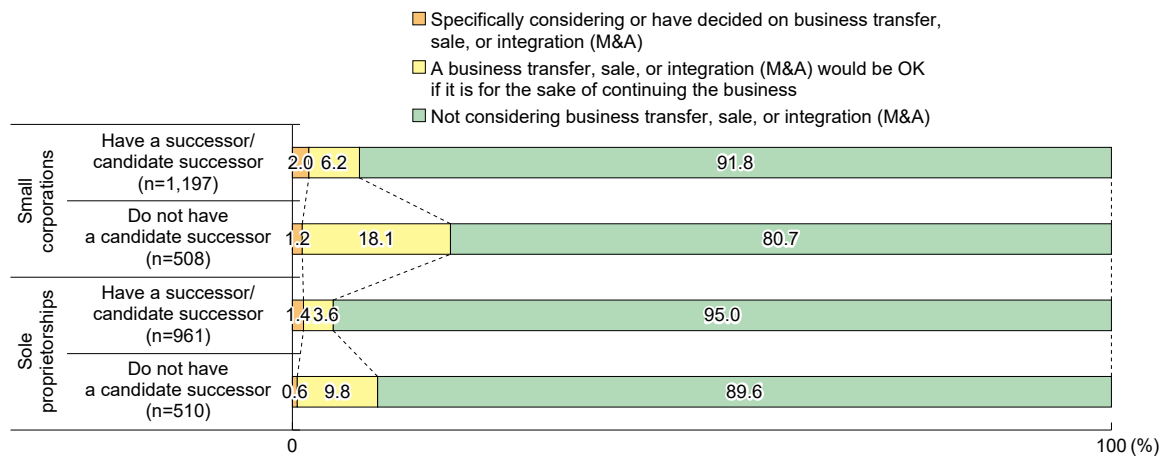
- (1) Transferring company stock to another company (creating a subsidiary)
- (2) Transferring stock to another individual
- (3) Transferring all or part of a company’s business to another company
- (4) Transferring all or part of a sole proprietorship’s business to another company or sole proprietorship

At a joint-stock corporation, the usual practice is to carry out a stock transfer (as in (1) or (2) above), but a business transfer (as in (3) or (4) above) is common when handing over part of a business and in the case of sole proprietorships. Mergers and company splits are also sometimes used. Rather than debating the merits of the different procedures, this section gives an overview of the state of consideration and challenges with business transfer, sale, or integration (M&A) as options for micro businesses to hand over their businesses in a form other than business succession.

Fig. 2-2-65 looks at the state of consideration of business transfer, sale, or integration (M&A) by whether there is a successor/candidate successor or not. The percentage that said they were “specifically considering or have decided on business transfer, sale, or integration (M&A)” or thought that “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” was also higher for those micro businesses that did not have a successor/candidate successor than those that had a candidate successor, so this is also a business handover option for micro businesses without a candidate successor. Though the percentage was low at sole proprietorships. It is conjectured that a certain percentage of micro businesses do not consider business transfer, sale, or integration (M&A) to be an option.

11) See the Business Succession Guidelines published in April 2015 for procedure details.

Fig. 2-2-65 State of consideration of business transfer, sale, or integration (M&A) based on successor decision status (small corporations, sole proprietorships)

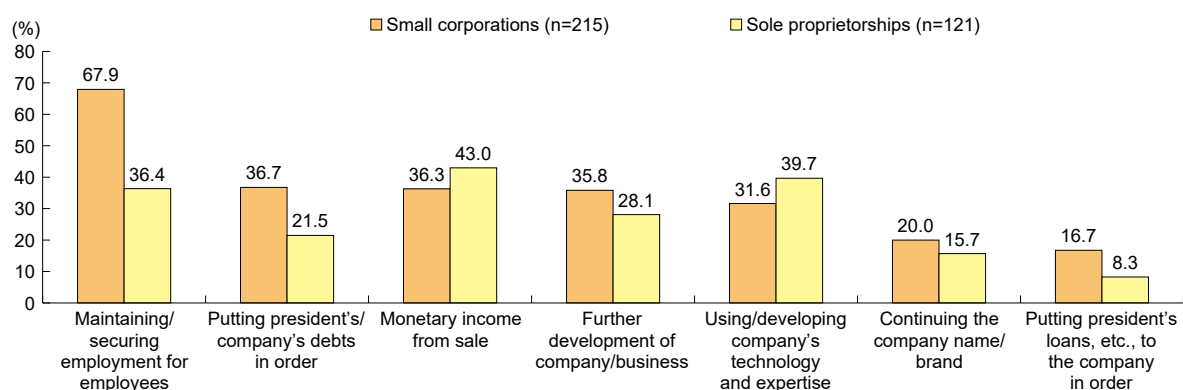


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-66 looks at what enterprises value in cases of business transfer, sale, and integration (M&A), based on whether they are small corporations or sole proprietorships. The most frequent response (67.9%) from small corporations was that they value “maintaining/securing

employment for employees,” but at sole proprietorships, a higher percentage wished for “monetary income from sale.” This reveals differences in the motives each group has for a business transfer, sale, or integration (M&A).

Fig. 2-2-66 What enterprises value in cases of business transfer, sale, and integration (M&A) (small corporations, sole proprietorships)



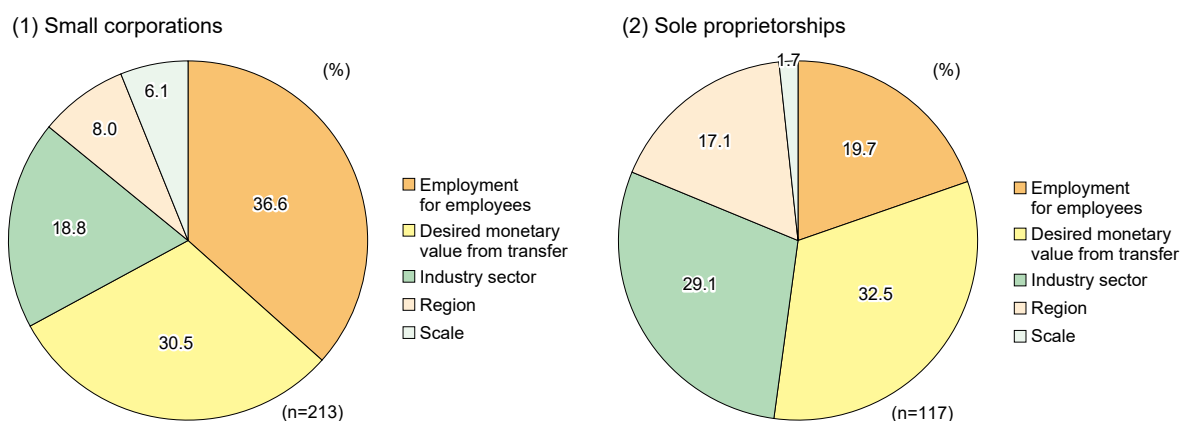
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding inclination to business transfer, sale, or integration (M&A).
 3. Those that answered “other” are not shown.

Next, we look at the conditions that micro businesses hope for in respect to their counterparts in the business transfer, sale, or integration (M&A).¹²⁾ Fig. 2-2-67 looks at the conditions that micro businesses most value when they select their counterparts for a business transfer, sale, or integration (M&A). Small corporations valued

“employment for employees” even more than “desired monetary value from transfer” and “industry sector,” but sole proprietorships most valued “desired monetary value from transfer,” revealing differences between small corporations and sole proprietorships.

Fig. 2-2-67 What enterprises most value when they select their counterparts for a business transfer (small corporations, sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

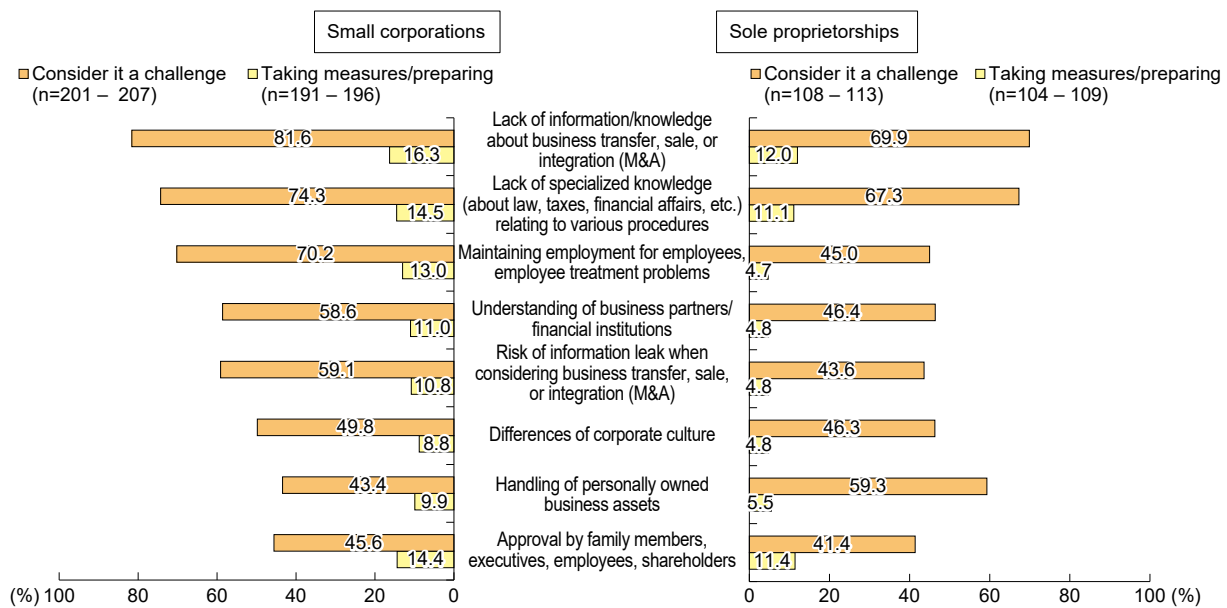
Note: Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).

12) See Column 2-2-5 for details about conditions on transfer counterparts, such as industry sector and scale.

Fig. 2-2-68 looks at each item of which small corporations and sole proprietorships said they “consider it a challenge” in terms of business transfer, sale, or integration (M&A) and for which they are “taking measures/preparing.” Both said of each item that they “consider it a challenge,” but they had not made much progress in taking measures and preparing. In particular,

there appears to be a sense of unease about knowledge, as revealed in the answers “lack of information/knowledge about business transfer, sale, or integration (M&A)” and “lack of specialized knowledge (about law, taxes, financial affairs, etc.) relating to various procedures.”

Fig. 2-2-68 Challenges with business transfer, sale, or integration (M&A) and state of preparation and measures for dealing with them (small corporations, sole proprietorships)



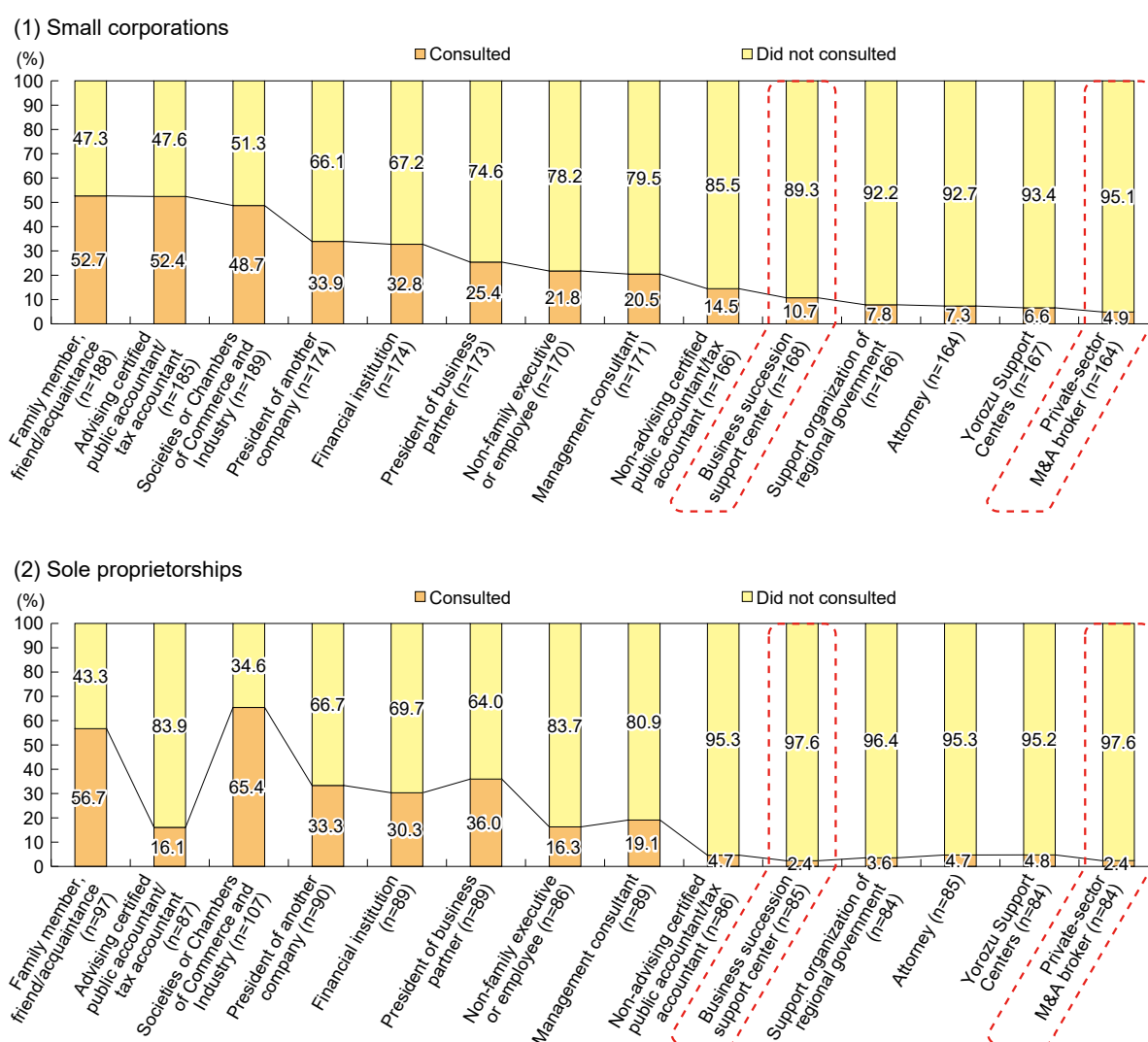
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).
 3. For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”

Fig. 2-2-69 looks at the state of advice seeking in the past as it concerns business succession at micro businesses with an interest in business transfer, sale, or integration (M&A). A smaller percentage of micro businesses had sought advice from a “private-sector M&A broker” (which supports business transfer, sale,

or integration (M&A)) or a “business succession support center” (a support organization at the national level) than from other sources of advice. Some support is needed for micro businesses that will yield concrete advice, such as increasing recognition of “business succession support centers.”

Fig. 2-2-69 State of advice seeking in the past as it concerns business succession at enterprises with an interest in business transfer, sale, or integration (M&A) (small corporations, sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).
2. For each item, “consulted” aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Column 2-2-5 Conditions that enterprises hope for from their counterparts to a business transfer, sale, or integration (M&A)

This section has looked at business transfer, sale, or integration (M&A). A business transfer, sale, or integration (M&A) can be an effective option for micro businesses that do not have a successor, but matching can be a difficult problem. This column examines why matching can be so hard by taking a detailed look at the conditions that micro businesses desiring a business transfer, sale, or integration (M&A) hope for from their counterparts when selecting those counterparts. Fig. Column 2-2-5 shows the conditions that enterprises hope for from their business transfer counterparts, based on form of organization (small corporation or sole proprietorship).

To begin, a look at industry sector shows that the most common response among small corporations was "industry sector does not matter," but the most frequent answer among sole proprietorships was "same industry sector," revealing differences by form of organization.

Looking at scale, moreover, the most common answer in each form of organization was "scale does not matter".

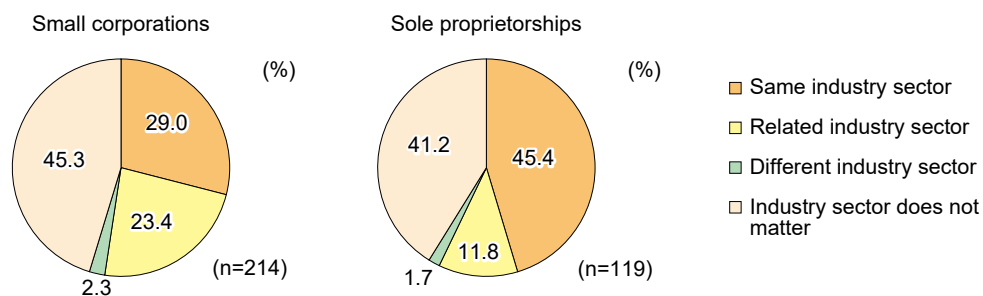
Next, we look at the region in which the transfer counterpart would be located. On this question too, the most common response was "region does not matter" for all forms of organization, though 32.2% of sole proprietorships hoped for a counterpart "in same municipality," a relatively high rate compared to small corporations.

Finally, we look at employment of employees. Among each group, a large percentage answered, "want it to be continued," but a high percentage (39.8%) of sole proprietorships said they had "no preference."

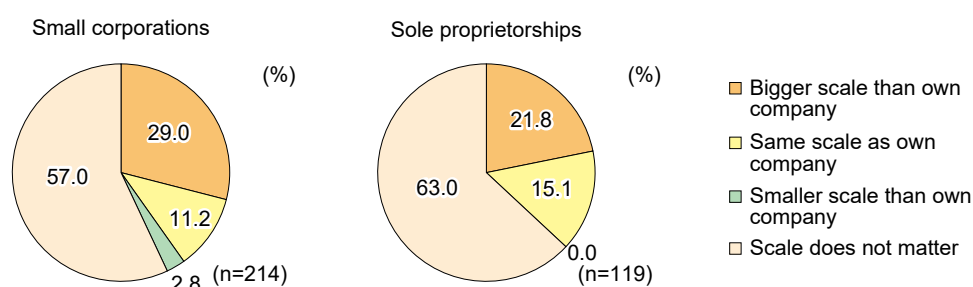
Micro businesses with a preference concerning business transfer, sale, or integration (M&A) were studied to consider the nature of that preference by form of organization. The results showed subtle differences in the preferred conditions in respect to the counterpart's industry sector, scale, and region. It is important that the support organizations that broker any business transfer, sale, or integration (M&A) give adequate consideration to these circumstances when they provide matching services.

Fig. Column 2-2-5 Conditions preferred in business transfer counterpart (small corporations, sole proprietorships)

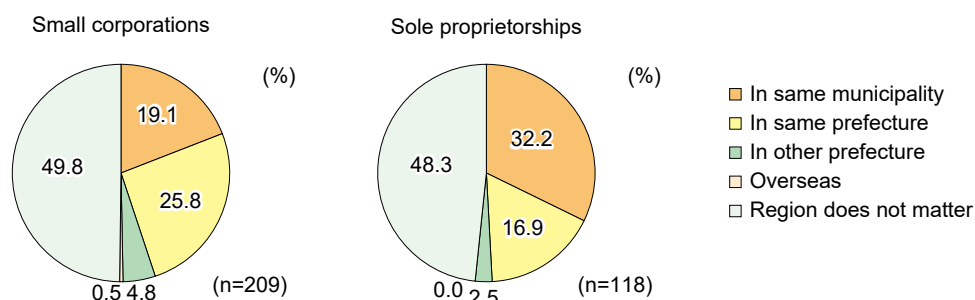
(1) Industry sector



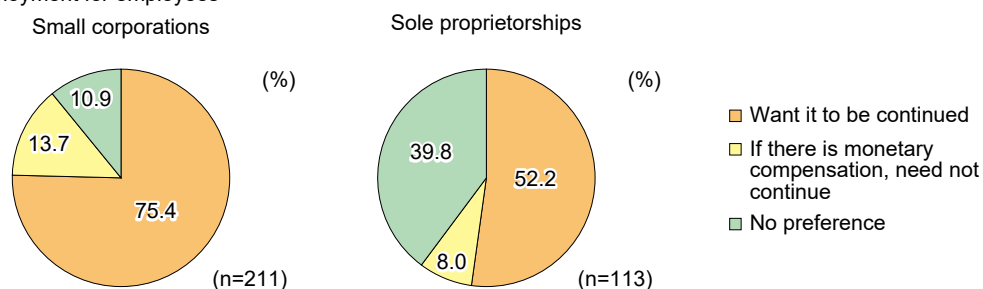
(2) Scale



(3) Region



(4) Employment for employees



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "specifically considering or have decided on business transfer, sale, or integration (M&A)" or "a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business" regarding business transfer, sale, or integration (M&A).

Case 2-2-5 Fukushima Shoten Co., Ltd.

A micro business that acquired a sole-proprietor business with no successor, and took over its products, brand, and customers

Fukushima Shoten Co., Ltd. (employees: 15; capital: ¥18 million), located in Yonago City, Tottori Prefecture, manufactures and markets vegetable pickles. Founded in 1921, Fukushima Shoten is a long-established company, with "*furu-zuke*" (vegetables pickled for a greater length of time than "*asa-zuke*," which are "lightly pickled" vegetables) its particular strength. The company mainly markets its products to supermarkets and other retailers in Yonago.

Fukushima Shoten conducted an M&A of Maruyama Shoten Co., Ltd. in 2016. Maruyama Shoten was a sole-proprietor business that manufactured and marketed pickles. Shuji Maruyama, the representative of Maruyama Shoten, had no-one among his relatives or employees to succeed him in the management of the company, and felt that with the situation as it was, it would be difficult to ensure the continuation of the business. After hard thinking about the jobs of his seven employees, Mr. Maruyama decided to suggest a business transfer to Michimasa Fukushima, President of Fukushima Shoten and an industry acquaintance of 10 years' standing, and merge his company with Fukushima Shoten.

Because this transaction involved the purchase of a sole-proprietor business, there was no method available to clearly evaluate the status of Maruyama Shoten's business, and it was therefore difficult to establish the price for the transfer. Mr. Fukushima therefore received an introduction to the Tottori Prefecture Business Succession Support Center from the San-In Godo Bank, his company's main bank, to assist in coordinating the negotiations between the companies regarding their conditions, etc. Support from the Tottori Company Support Network (a cooperative support system made up of the Tottori business community, financial institutions, support agencies, etc.) centering on the Business Succession Support Center which is a public institution, enabled the companies to make use of the collective strength of actors in the prefecture and external experts, making it possible to smoothly coordinate the negotiations.

At the conclusion of the negotiations, still receiving guidance, the companies drew up a basic agreement concerning the business transfer and a business transfer contract; Fukushima Shoten became responsible for the employment of Mr. Maruyama and his seven employees, and took over Maruyama Shoten's *asa-zuke* pickling techniques, product brand and business partners. Mr. Maruyama says, "Deciding on a business transfer and then going ahead with the procedures was extremely difficult. Thanks to the support provided by the Business Succession Support Center and others, we were able to bring the negotiations to a satisfactory conclusion."

For Fukushima Shoten, taking over Maruyama Shoten's business has been a significant plus. Mr. Fukushima says, "As the population of Tottori Prefecture shrinks in future, we are going to have to expand our sales channels outside the prefecture. I had been afraid that if things continued as they were, the business would start to fade away. But now we have been able to acquire the Daisen Kogen pickle brand and sales connections outside the prefecture, and I want to make them work for the development of the business. In addition to that, we are strong in the area of *furu-zuke*, and Maruyama Shoten was strong in the area of *asa-zuke*, and so there is a significant synergistic effect. Following the business transfer, costs were higher than I thought they would be, for example for repairing deteriorated equipment in the factory, but considering the positive benefits, that is just part of goodwill, and I'm glad that I took over the business."

In this case, Maruyama Shoten avoided closure as a result of difficulty in finding a management successor, and Fukushima Shoten has assumed responsibility for the employment of the former proprietor and his employees, taken over the company's brand, and expanded its business. This shows that for micro businesses also, M&A represent an effective means of passing a business on to the next generation, in addition to providing an opportunity to realize growth and development.



Shuji Maruyama, representative of Maruyama Shoten (L) and Michimasa Fukushima, President of Fukushima Shoten (R)

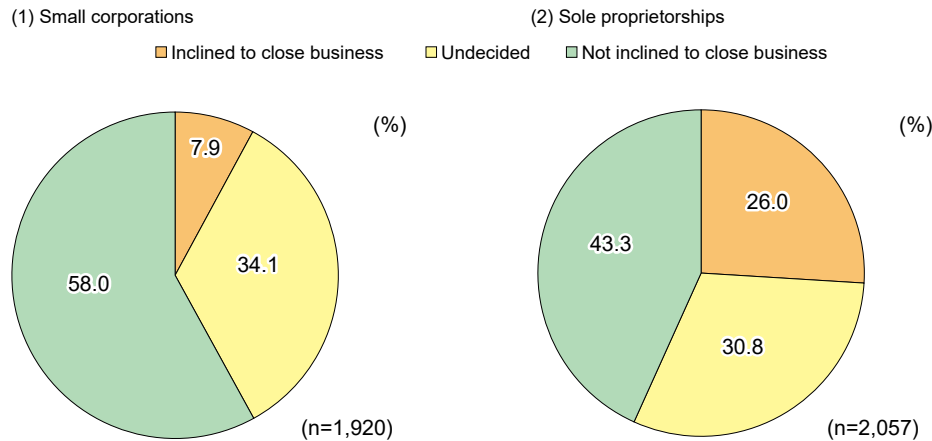
2. State of consideration and challenges with business closure

Starting here, we address enterprises that plan to close their business. It is a big decision to give up on a business that the president and employees have built up over the years. Here, we analyze the background when presidents think about this option.

Fig. 2-2-70 shows the inclination that enterprises have

concerning business closure, by form of organization. The inclination to close the business was highest among sole proprietorships (26.0%), followed by small corporations (7.9%). The smaller the micro business, the more likely it was to have an inclination to business closure.

Fig. 2-2-70 Inclination to close business, by form of organization



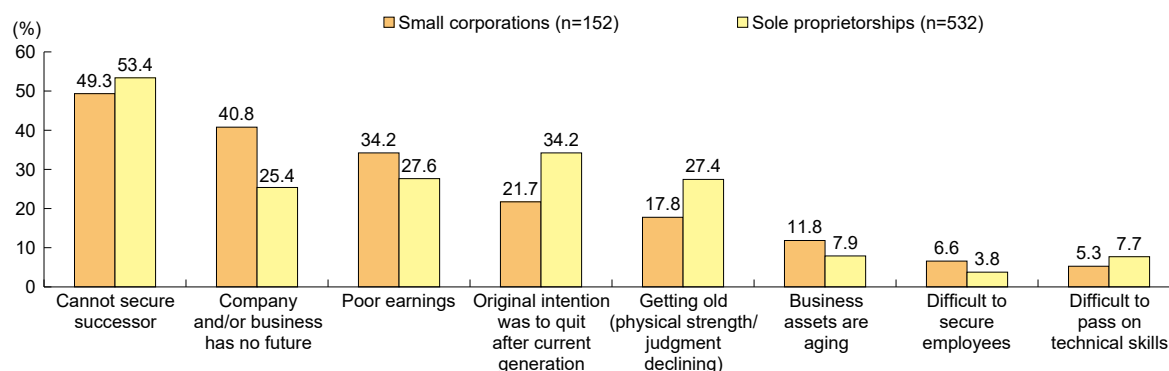
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Here, “inclined to close business” refers to those that answered, “not thinking about handing over to anyone (intend to close business during my generation).” Also, here, “not inclined to close business” refers to those that answered, “would like to hand over to someone (includes transferring or selling business).”

Fig. 2-2-71 looks at the reasons micro businesses are thinking of closing business. The most common reason regardless of form of organization is “cannot secure successor,” but the next most common is “original

intention was to quit after current generation” for sole proprietorships and “company and/or business has no future” for small corporations.

Fig. 2-2-71 Reasons for thinking of closing business (small corporations, sole proprietorships)



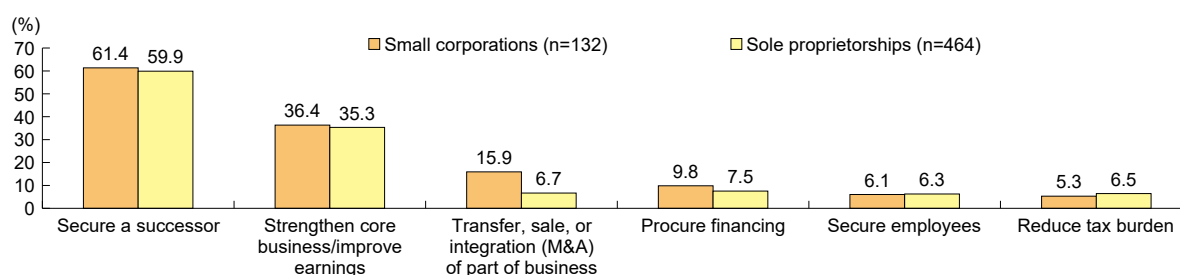
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”
 3. Those that answered “other” are not shown.

Fig. 2-2-72 looks at the support and solutions that micro businesses thinking about closing business need if they are to consider handing over the business. The most common answer was “secure a successor,” but the next was “strengthen core business/improve earnings.” It is

conjectured that there are businesses thinking of closing because they are not only struggling to find a successor but also do not see much future since the earning capacity of the business itself has been weakened.

Fig. 2-2-72 Support and solutions required to consider a business handover (small corporations, sole proprietorships)



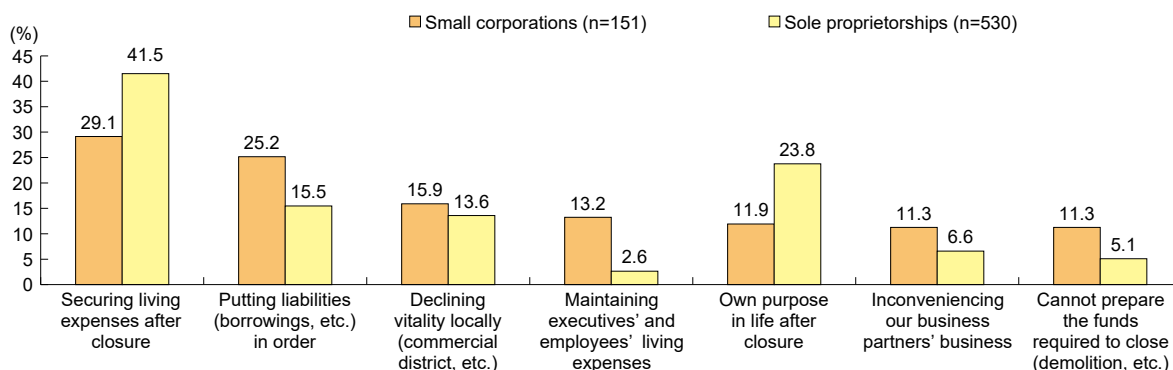
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

Fig. 2-2-73 looks into what problems are likely to occur when micro businesses actually close. Regardless of form of organization, the most common answer was “securing living expenses after closure.” At sole proprietorships, this was followed by “own purpose in life after closure.” These answers mean that presidents have many worries

about their own lives following a close of business. At small corporations, on the other hand, there were many problems on the monetary side: “putting liabilities (borrowings, etc.) in order” and “maintaining executives’ and employees’ living expenses.”

Fig. 2-2-73 What problems are likely to occur when businesses close (small corporations, sole proprietorships)



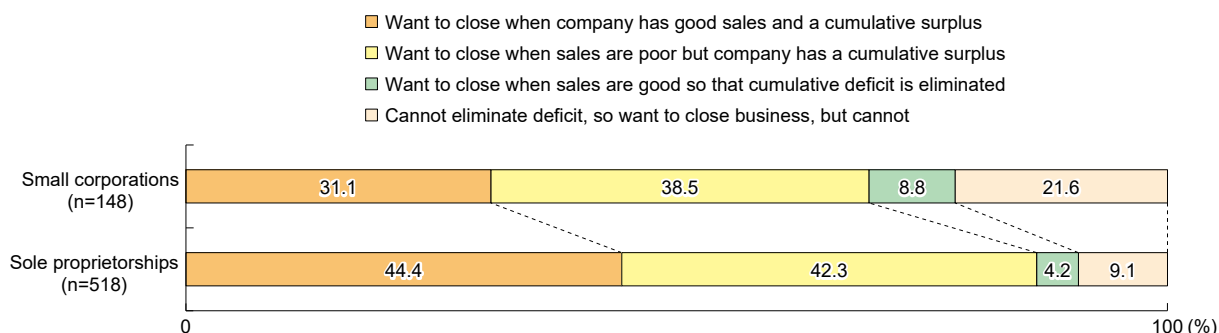
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”
 3. Those that answered “other” or “no problems in particular” are not shown.

Next, Fig. 2-2-74 looks at the ideal timing to close business. Among both sole proprietorships and small corporations, there were a certain percentage that said they cannot eliminate their deficits and thus cannot close business. On the other hand, there were many businesses

hoping to close while they have a cumulative surplus. This shows that many micro businesses would like to close business before business gets worse and their borrowings, etc., become too big a burden.

Fig. 2-2-74 Ideal timing to close business (small corporations, sole proprietorships)



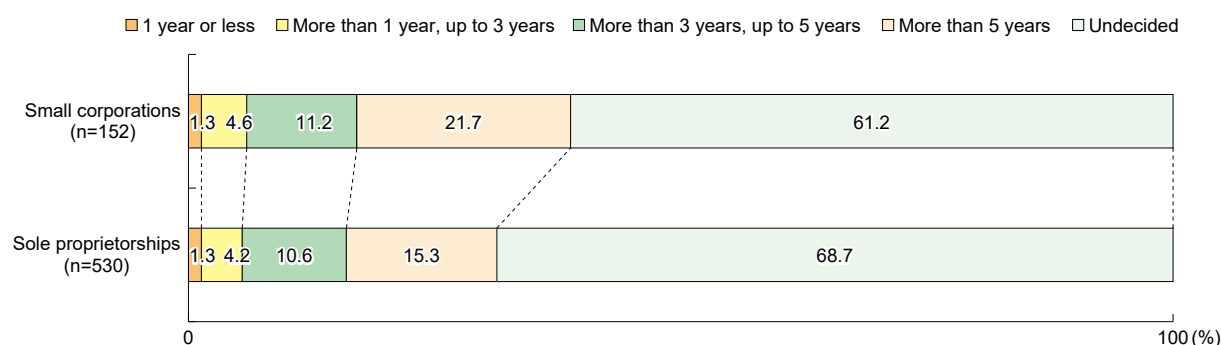
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

Fig. 2-2-75 looks at the timing when enterprises are thinking of actually closing business. Among enterprises that had a concrete time frame in mind, the most common answer was “more than 5 years” (15.3% at sole proprietorships and 21.7% at small corporations),

suggesting that they are considering a long time span to close. However, more than 60% of all enterprises said they were “undecided,” and it seems likely that among these micro businesses are many that could consider a business handover.

Fig. 2-2-75 When enterprises are thinking of closing business (small corporations, sole proprietorships)



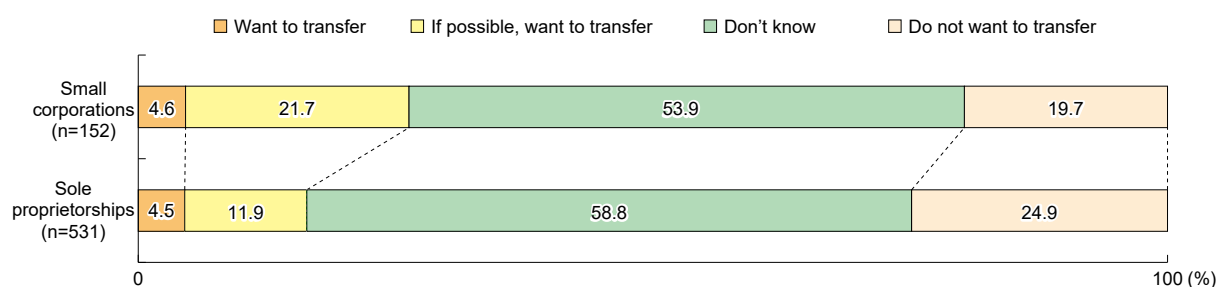
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

Fig. 2-2-76 looks at how micro businesses that are thinking about closing business look at the idea of transferring their businesses and assets to another company. At small corporations, a higher percentage answered, “want to transfer” or “if possible, want to

transfer” than answered, “do not want to transfer.” Sole proprietorships yielded the opposite results, indicating a strong resistance to transferring businesses and assets after closure among sole proprietorships.

Fig. 2-2-76 How enterprises look at the idea of transferring their businesses and assets to another company if they actually close business (small corporations, sole proprietorships)



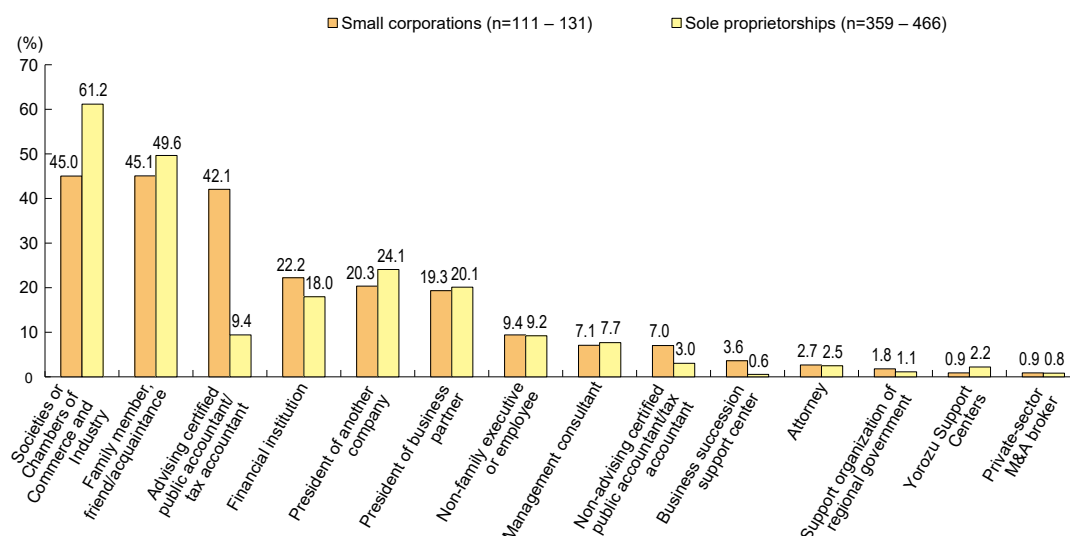
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

For enterprises thinking about closing business, it is important to get appropriate advice from those around them, whether they ultimately choose to hand over the business or close it smoothly. Fig. 2-2-77 shows who micro businesses inclined to close business have gone to in the past for advice. Among micro businesses inclined to close business, the most frequent answers were that they went to a “societies or chambers of commerce and

industry” or “family member, friend/acquaintance.” For small corporations, the next most common answer (42.1%) was “advising certified public accountant/tax accountant.” For micro businesses like these, it is important that those around them providing advice give advice such as introducing an expert who can give the necessary support.

Fig. 2-2-77 Who micro businesses inclined to close business have gone to for advice



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

In particular, among micro businesses thinking about closing business, there are many that need to rebuild the business in order to hand it over, as seen in such answers as “strengthen core business/improve earnings,” as in Fig. 2-2-72. As for securing a successor, it is also hard to find a solution solely from the help they get from those they go to for advice. Micro businesses face all kinds of

challenges, but in particular, if a micro business seeking advice hopes for a business succession or a business transfer, sale, or integration (M&A), even if only a part of the business, parties giving advice have an important role to play: giving the advice necessary to rebuild the business, or introducing a support organization that will lead to solutions.

Case 2-2-6 Matsunaga Pottery

A company that overcame the suspension of its business by the Great East Japan Earthquake, restarted a traditional industry, and, following a management succession, cultivated new sales channels

Matsunaga Pottery (a sole-proprietor business), located in Namie, a town in Fukushima Prefecture, is a pottery that produces Obori Soma-yaki, a traditional craft product of Namie. Soma ware has three main characteristics: It features a brush drawing of the motif of a horse consecrated to the gods, symbolizing the former Soma feudal domain; blue-green cracks known as “ao-hibi” spread across the entire surface, forming a ground pattern; and it has a two-layer structure, ensuring that hot liquids resist cooling, and that the vessels can be held even when they contain hot liquids.

The father of the current representative of Matsunaga Pottery, Takeshi Matsunaga, was the third generation of management. However, the company's situation changed dramatically with the occurrence of the Great East Japan Earthquake and the accident at the Tokyo Electric Power Company's Fukushima Daiichi Nuclear Power Station in 2011. Namie, where the pottery was located, was designated a “difficult-to-return zone,” and the 25 Obori Soma-yaki potteries to which the town was home were dispersed and forced to suspend their business. Obori Soma-yaki can only be created using a glaze made from Toyama stone mined in Namie, making the difficulties in recommencing the business all but insurmountable. Mr. Matsunaga's father, who had relocated to Tochigi Prefecture following the disaster, considered shutting the business down due to the difficulty involved in restarting operations.

Mr. Matsunaga had not intended to take over the business, nor had his father intended his son to succeed him, and so he had started a venture company in Tokyo. Learning of his circumstances of his family home following the disaster, Mr. Matsunaga felt strongly that he wanted to protect the local tradition, and made up his mind to take over the business. Urged by Mr. Matsunaga and his business partners, his father also decided to restart the business. With the help of Fukushima Prefecture, among others, a substitute raw material was developed, and the family began producing Obori Soma-yaki pottery again, using a kiln in Nishigo Village, located in Nishishirakawa District, Fukushima Prefecture. Mr. Matsunaga looks back. “The place where I was born and raised was now in a “difficult-to-return zone,” and so I felt that my home had simply disappeared. When I thought that I would like to salvage something as a token of my home having existed, the Obori Soma-yaki made by my family came to mind, and I began to think about what I could do to ensure its survival.”

With his father, the previous manager of the pottery, overseeing manufacture, Mr. Matsunaga has established a separate company for sales of the pottery's products, and is focusing his energies on cultivating new sales channels. To ensure that the tradition survives rather than dying out, his other initiatives also include collaborating with designers to plan new products and expanding the business overseas.

Mr. Matsunaga says, “from before the disaster sales had slumped, and the business would not have survived just doing things the same old way. My father is a craftsman, and while we have had conflicts, he supports what I am doing. My wish is to introduce more and more people to the excellence of Obori Soma-yaki, a traditional craft product of Namie, and to pass it on to the next generation. Unlike my father, to whom my grandfather passed down the techniques of making this pottery, I am not a craftsman. What I want to do is to create an appealing business that will attract young people we can foster as craftspeople and pass the techniques on to.”



The reopened Matsunaga Pottery



Matsunaga's “KACHI-UMA” brand, created in collaboration with designers

Section 3 Summary

This chapter has been an overview of business succession at micro businesses. A conventional business succession, as well as business transfer, sale, or integration (M&A), are both ways for a president to hand over a business to the next generation. This chapter has considered business succession in terms of handover of management and handover of assets.

The analysis found that in the case of business succession, encouragement from those around the president to prepare for handover is important in any scenario where handing management and assets over to the next generation. It was also shown that presidents who seek advice have generally made more progress with their measures and preparation than those who do not seek advice. There are a variety of challenges that come with handover of management: it takes a lot of time (even apart from selecting the successor), and handover of assets, especially in the case of non-family succession, brings financial challenges and challenges like deciding how to transfer the assets. Taking measures against these often require expertise. Moreover, the circumstances differ at each enterprise, and the enterprise has to search for the best approach under its own circumstances. In light of these points, advising certified public accountants, tax accountants, financial institutions, societies or chambers of commerce and industry, and other organizations that are a familiar presence to the president should encourage the president to start preparing for business succession at an early date and work with the president to identify the best approach.

This chapter also analyzed business transfer, sale, or integration (M&A) as an alternative to conventional business succession as a way to hand over management resources to the next generation. Business transfer, sale, or integration (M&A) is an important option for enterprises that do not have a candidate successor but want to continue their business. Presidents thinking about a business transfer, sale, or integration (M&A) have shown a very proactive attitude, for example by valuing their employees' employment and hoping for

further development of the business, but there are many challenges that factor into the consideration, so often these presidents have not made much progress on measures and preparation, as was the case with conventional business succession. Often the people that such enterprises go to for advice are familiar ones they already have a relationship with; very few seek advice from an M&A expert. Advising certified public accountants, tax accountants, financial institutions, societies or chambers of commerce and industry, and other organizations familiar to the president should understand these latent needs and set up support systems that can respond to the variety of challenges.

On the other hand, there are a certain percentage of presidents inclined to close their business instead of passing it on to the next generation. This is especially the case among micro businesses. The challenges that come up with business closures are different for corporations and sole proprietorships. Some of those mentioned by sole proprietorships include the life and sense of purpose of the president himself or herself, while corporations mentioned putting their liabilities in order and maintaining employees' employment and their living expenses. Even at enterprises inclined to close business, there are some that wish to transfer their business and assets to another company. It is important to form a cycle such that at least a part of the management resources of the enterprise closing business get handed over to the next generation.

On the whole, it is necessary to start preparing early to carry out the conventional business succession or business transfer, sale, or integration (M&A) to ensure that the business passes on smoothly. It is also important that those around advising the president give him or her insights and triggers to act. On the president's side, it is important that, rather than thinking he or she has to deal with the challenges alone, he or she should think about how to hand over the business to the next generation and understand the need to start business succession preparation early. It is also essential to collaborate with surrounding organizations to advance measures and preparation.

Chapter 3

Initiatives to increase sales

In the present chapter, we analyze initiatives by micro businesses to increase sales. For micro businesses, at a moment when they are faced with such issues as (1) structural change in the form of a declining birthrate and demographic aging and (2) intensifying competition with other businesses, making an effort to increase sales is an absolute necessity if they are to achieve sustainable development.¹⁾ Toward that end, it is crucial for the micro business owner to suitably come to grips with what they can provide to their clients and what it is that their clients want.

Based on this sense of the current landscape, the present chapter will use the “Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses”²⁾ to get a comprehensive view of the management challenges facing micro businesses and analyze the actual state of initiatives by micro businesses to increase sales as well as the issues involved.

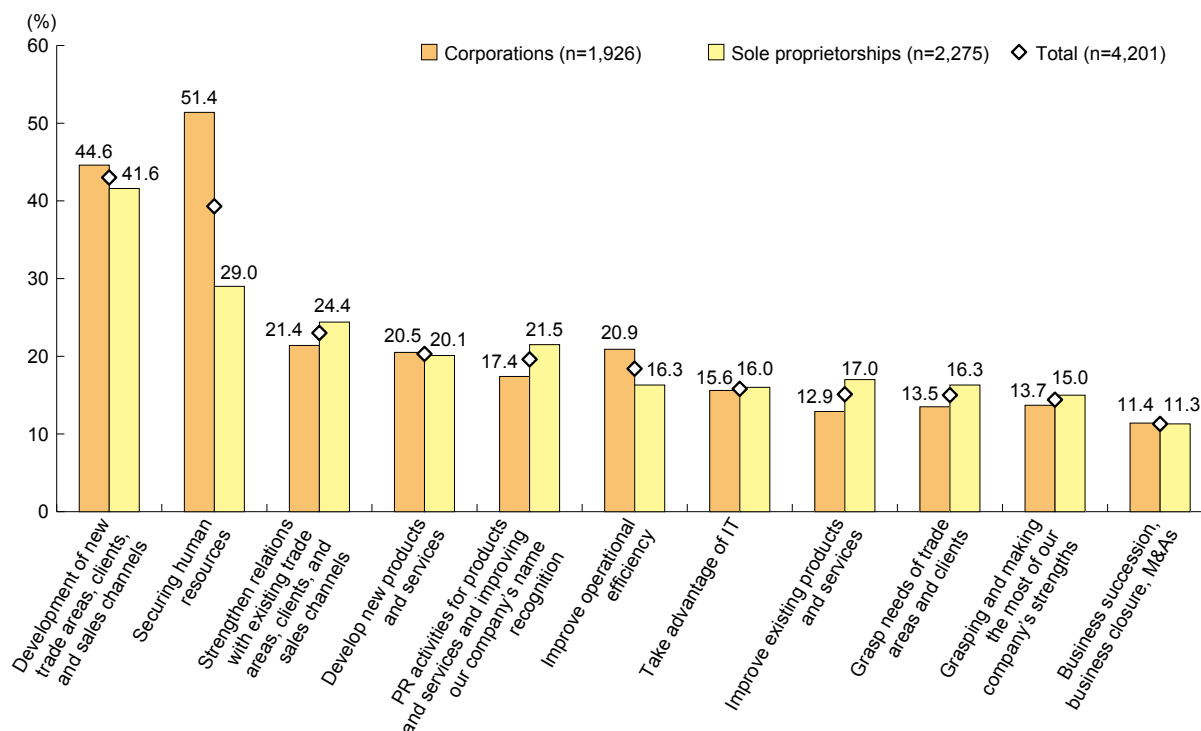
Section 1 Current state of initiatives by micro businesses

(1) Business challenges for micro businesses

As seen in Part I, micro businesses are experiencing a trend of sluggishness in their performance. In the present section, we will begin by reviewing the management challenges of this sort that micro businesses face. As Fig.

2-3-1 shows, “development of new trade areas, clients, and sales channels” ranked among the frequently cited challenges reported by micro businesses, along with “securing human resources” particularly among corporate enterprises.

- 1) The Basic Act for Promoting of Small Enterprises (Small Enterprise Basic Act) makes “the sustainable development of business” a basic principle to go along with “the growth and development of business” that had already been stipulated under the Small and Medium-sized Enterprise Basic Act.
- 2) Questionnaire-based survey conducted of micro businesses from among the members of the Central Federation of Societies of Commerce and Industry, Japan, and Chambers of Commerce and Industry in December 2016 by Nomura Research Institute, Ltd., as a project commissioned by the SME Agency. Valid responses from 4,201 businesses.

Fig. 2-3-1 Business challenges seen as important, by form of organization

Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

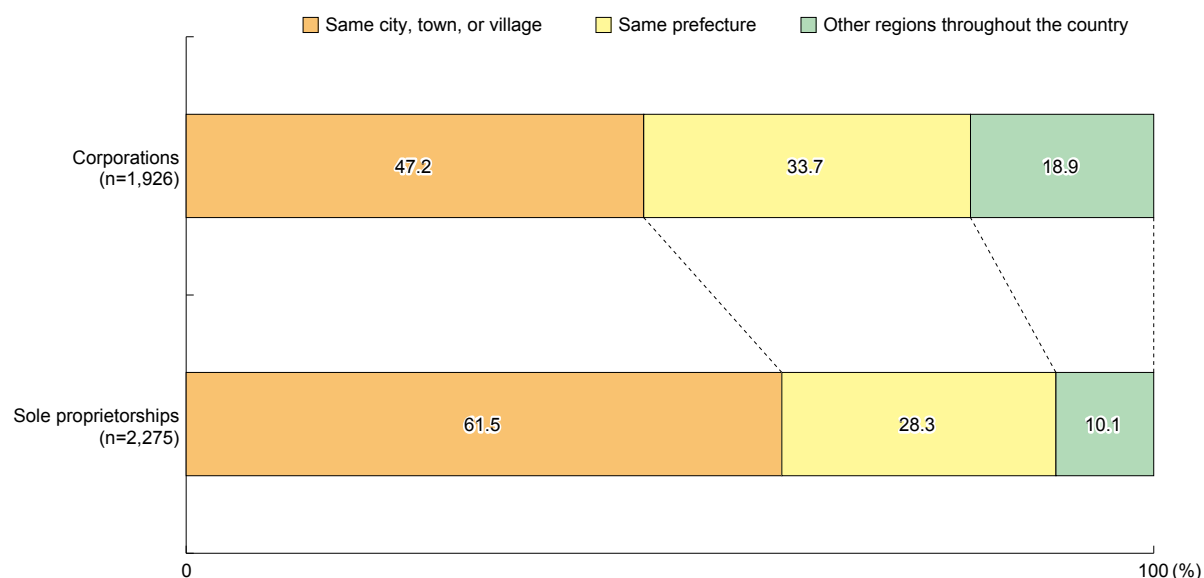
Note: Total does not always equal 100% as multiple responses were possible.

(2) Trade areas and trends in volume of sales for micro businesses

Next, let us look at trade areas with the highest volumes of sales broken down by corporations and sole proprietorships. “Trade area” here refers to that region that accounts for the highest proportion of sales.³⁾ Looking at Fig. 2-3-2, we see that 47.2% of corporations responded

that the city, town, or village in which they were located was the trade area with the highest sales for them, while 61.5% of sole proprietorships said the same. Meanwhile, 18.9% of corporations and 10.1% of sole proprietorships said that this trade area was other regions throughout the country.

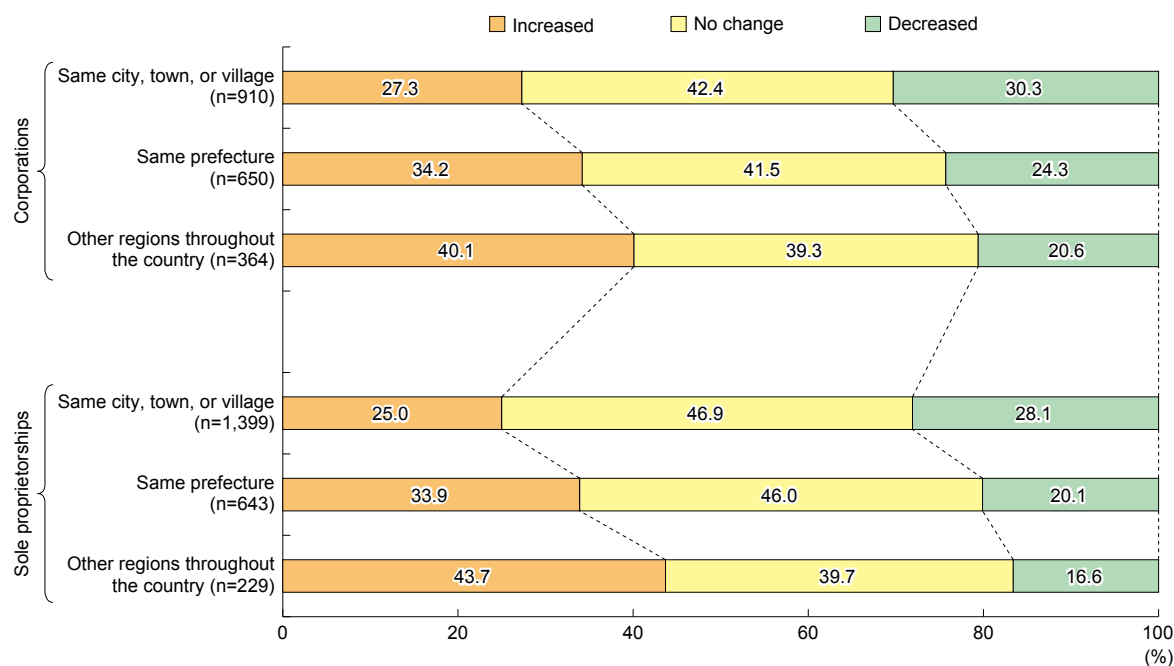
3) The same definition will apply to other uses of this term later in the present chapter as well.

Fig. 2-3-2 Ratios of trade area segments, by form of organization

Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Fig. 2-3-3 illustrates differences in sales trends based on trade area. The figure shows that sales tend to increase for both corporations and sole proprietorships as the scope of trade area expands. For example, in the case of corporations 27.3% of such entities who focused on the

same city, town, or village in which they were located as their trade area said their sales were on a growth trend, as opposed to 40.1% of those who focused on other regions throughout the country.

Fig. 2-3-3 Recent sales trends, by form of organization and trade area

Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

As is also apparent from Fig. 2-3-1, many micro businesses see “development of new trade areas, clients, and sales channels” and “securing human resources” as the business challenges they face. In Section 2, with respect to the matter of “development of new trade areas, clients, and sales channels” we will look at four kinds of business challenges: (1) grasping needs of trade areas and clients, (2) grasping the strengths of one’s micro business itself, (3) PR activities and improving name recognition, and (4) implementing business policies and developing new business. This will permit us to analyze the actual state of initiatives and the issues involved related to these sorts of business activities undertaken by micro businesses.

Furthermore, in Section 3 with respect to securing human resources we will focus on and analyze both the

workplace environment at micro businesses and the use that is made of varied human resources. Due to changes in the structure of the population such as the declining birthrate and demographic aging⁴⁾ and the shrinking of the population itself, for micro businesses to achieve sustainable growth requires that they boost their initiatives toward securing human resources and that they make the most of varied human resources. Accordingly, with this in mind in Section 3 we will analyze the initiatives that micro businesses are undertaking toward making use of diverse human resources as well as the issues involved, and also give thought to what initiatives to secure human resources will be conducive to future growth.

4) Please refer to Fig. 1-3-1 in Part I, Chapter 3, with respect to the declining birthrate and demographic aging.

Column 2-3-1 Consumption tax reduction measures

Although the Japanese consumption tax will increase to 10% on October 1, 2019, a reduced consumption tax rate will also go into effect on this date for the sake of low-income earners. A reduced tax rate of 8% will apply to purchases of (1) store-bought food items and nonalcoholic drinks, and (2) fixed-term subscriptions to newspapers issued at least twice a week.

The SME Agency will provide a full range of support to ensure a seamless transition to the new rates for SMEs and small-businesses.

[Robust support and dissemination of information via pamphlets, etc.]

The SME Agency is working with small business associations to provide robust support in the form of holding workshops and forums, setting up a consultation office, and dispatching experts. Consultation is provided by societies and chambers of commerce and industry and other such SME associations.

The SME Agency also prepares easy-to-follow pamphlets and disseminates information to SMEs and small-businesses. More information can be found on the SME Agency's website and on Mirasapo.



[Support for efforts that include replacing cash registers and upgrading ordering systems]

In April 2016, the SME Agency began providing support for SMEs and small-businesses needing assistance with replacing cash registers and other efforts to achieve consumption tax reduction eligibility.

(1) Assistance in deploying and upgrading cash registers covered under the multiple tax rate system

Overview	Support for deploying new cash registers and upgrading existing cash registers covered under the multiple tax rate system. ("Cash registers" includes cash registers with no POS functionality, mobile POS systems, and POS systems.)
Subsidy rates	Generally 2/3 the cost of deployment - 3/4 the cost when deploying only one unit at a cost of less than ¥30,000 - 1/2 the cost for tablets and other general-purpose devices (eligible only if purchased in a set with peripheral devices)
Maximum subsidies	¥200,000 per cash register. An additional ¥200,000 is provided per unit when costs are incurred to set up basic product information on or install the unit. There is a ¥2 million limit per business available when, for example, applying for multiple units.
Eligible costs	- Cash registers - Peripheral devices for cash registers (barcode readers, cash drawers, credit card processing devices, electronic money readers, customer displays, receipt printers, routers, servers) - Costs involved in installing devices (including transport costs) - Costs to set up basic product information (Also applicable for leased equipment)
Application support	This support is available for applications made by applicants themselves, as well as for "proxy applications" made through certain manufacturers, retailers, and vendors published on the administrative office's website. Applications require the submission of several application documents and documentary evidence.
Application timing	After equipment deployment/upgrade (applications are accepted at any time)

(2) Assistance for the upgrading of electronic ordering systems that are not covered under the multiple tax rate system

Overview	Support is provided to businesses that use electronic ordering systems (EDI, EOS, etc.) and that upgrade or replace functions as necessary to achieve reduced tax rate eligibility.
Subsidy rates	Generally 2/3 the cost of deployment
Maximum subsidies	¥10 million for order placement systems purchased by retailers ¥1.5 million for order receiving systems purchased by wholesalers ¥10 million when both order placement and order receiving systems are purchased
Eligible costs	- Upgrading of electronic ordering data formats, codes, etc. - Transitioning from electronic ordering systems currently being used to systems covered under the multiple tax rate system - Upgrading or replacing of functions for setting up basic product information, managing ordering or purchasing, or managing order receiving as needed for electronic ordering. (Support is also provided for packages that combine ordering management products or services with, for example, inventory management and finance and accounting products or services. If these packages include electronic ordering systems, the subsidy shall be the product of the subsidy rate and half of the initial purchase cost.) (Also applicable for leased equipment)
Application support	- For system upgrades that require specialized expertise, proxy applications may be filed by system vendors, etc. specified by the administrative office in place of the applicant himself/herself. - However, when deploying packaged products or services registered with the administrative office, applications must be made by the applicant himself/herself.
Application timing	Upgrades by specified businesses: <u>Before</u> system upgrade or replacement (applications are accepted at any time) Self-deployed: <u>After</u> system upgrade or replacement (applications are accepted at any time)

Further information can be found on the website for the Reduced Consumption Tax Rate Subsidy Administrative Office (www.kzt-hojo.jp).

Contact: Reduced Consumption Tax Rate Subsidy Administrative Office Call Center
Telephone: +81-570-081-222 (hours: 9:00 to 17:00, toll call)

Utilizing these subsidies and making improvements to cash registers and peripheral equipment will achieve reduced tax rate eligibility while also improving business efficiency and productivity.

For example, local SMEs and small-businesses that manage sales and purchasing manually will dramatically improve business efficiency by deploying a POS system.

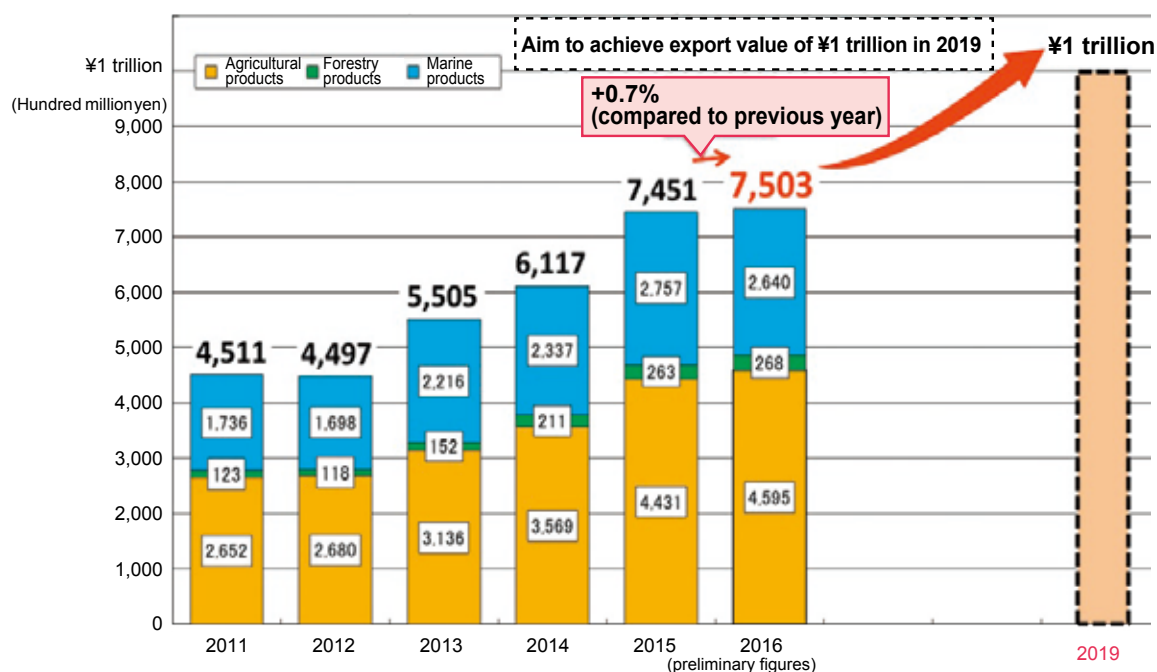
Deploying a tablet-based mobile POS system and using Cloud-based accounting software allows a business to keep track of financial data in real-time on a daily basis and perform weekly and daily accounting. It also allows for instantaneously ascertaining business status and cash flows, allowing business decisions to be made in a more timely manner.

Businesses can therefore systematically prepare to achieve reduced tax rate eligibility while at the same time improving business efficiency and productivity by making improvements related to cash register systems.

Column 2-3-2 Export of agricultural and fishery products integrated with food culture

Emerging countries, mainly in Asia, are experiencing economic growth and population increases. As a result, estimates are that the value of the food market for the entire world will double from ¥340 trillion in 2009 to ¥680 trillion by 2020.⁵⁾ Seeking to win this market, in May 2016 the government compiled its “Strategy to Boost Export Power of Agriculture, Forestry, and Fisheries” and has been working through private-public efforts to promote exports of agricultural, forestry, and fishery products and foodstuffs.⁶⁾ As to the objective of obtaining an export value of ¥1 trillion by 2020, the “Economic Measures for Realizing Investment for the Future” (Cabinet approved August 2016) set 2019 as the goal for achieving this, or one year earlier than planned.

Fig. Column 2-3-2 (1) Trends in export value of agricultural, forestry, and fishery products and foodstuffs



Source: Created by Ministry of Agriculture, Forestry and Fisheries, based on Ministry of Finance, *Trade Statistics of Japan*.

One of the actions this Strategy calls for is to leverage the popularity of Japanese food abroad and come up with promotions that use food culture in an integrated manner. This could represent a tremendous opportunity for regional SMEs if it can be connected to expanding overseas sales channels for high value-added foodstuffs backgrounded their local resources and culture.

The SME Agency conducted a survey in 2016 on initiatives overseas that connected familiarizing people with a given food culture to an expansion of sales channels.⁷⁾ For example, Italy is promoting exports integrated with its food culture with a focus mainly on those products that everyone imagines to be “Italian cuisine” such as pasta in combination with such items as olive oil and wine that take advantage of the Mediterranean climate for their production. It is also working to encourage even further exports through industrial collaborations in the food area.

5) MAFF, *On the Overseas Dissemination of Japanese Foods and Food Culture* (September 2014).

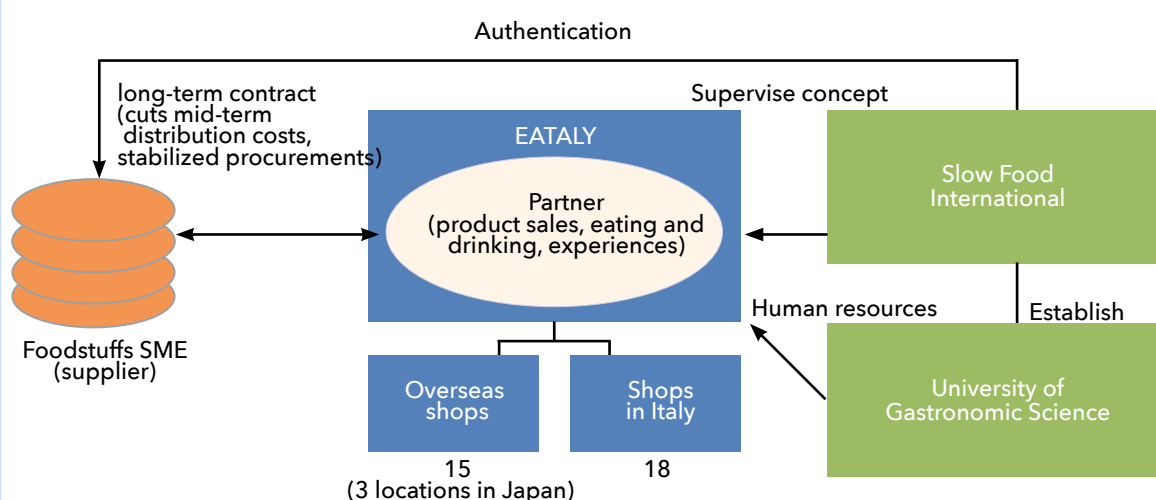
6) From MAFF website, *2015 Export Performance of Agricultural, Forestry, and Fishery Products and Foodstuffs*.

7) SME Agency, *2016 Survey on Transmission Points for Food and Food Culture in Japan and Abroad* (September 2016).

One enterprise that is attracting attention for its use of a new business model that fuses together the three businesses of “buying” (sales), “eating” (food and beverages), and “learning” (first-hand experiences) with Italian food culture providing the central axis is EATALY Distribution S.r.l. (Italian foods retail trade and eating-out business, approx. 1,400 employees, capitalization of €15.33 million, annual sales of €210 million).⁸⁾ EATALY opened its first store in Torino in 2007. It opened a Tokyo branch in 2008 and a New York branch in 2010. It currently has 18 shops around Italy, and another 15 overseas.

EATALY has adopted the principles of the non-profit organization Slow Food International⁹⁾ and brings in human resources from the University of Gastronomic Science under that group’s umbrella. The enterprise has also concluded direct, long-term contracts with food manufacturers for products certified by Slow Food International along with other high-quality items with regional characteristics. EATALY also sells key processed foodstuffs at its overseas shops, and provides export know-how to food manufacturers that have low visibility and limited sales experience overseas.

Fig. Column 2-3-2 (2) Collaborative model used at EATALY



Michelis Egidio S.n.c. (confections and pasta manufacturer, capitalization of €90,000, annual sales of €13 million), an SME in the foodstuffs industry that does business with EATALY, gets 15% to 18% of its sales outside of Italy. It has set goals of increasing those rates to 20% by 2018 and 50% by 2020. Currently, its primary export markets are the U.S., Germany, and Brazil, and it is investigating ways to further increase its export destinations. Michelis Egidio S.n.c. executives have said that the hurdles for opening up new sales channels abroad were high for an SME. However, by coming up with a way to get their merchandise into EATALY’s shops in foreign countries and creating opportunities to talk with customers there about the products’ quality and appeal to their five senses, they were able to pick up new business abroad.

With respect to Japanese culture and food culture and sales bases that have integrated them into the mix, the private sector has been active in this area. In 2016, a consortium uniting Maetaku Co., Ltd., with various enterprises in Nagasaki Prefecture opened a Japanese tea cafe in California, while the Mitsukoshi Isetan Group opened a Japan Mall in Malaysia. Both projects took advantage of investments from the Cool Japan Fund. Efforts at such bases of operations to strengthen brand power overseas are expected to become a platform in the future for Japan’s SMEs in the foodstuffs industry.

8) Capital fund as of December 31, 2013. Average exchange rate of 1 euro = US\$1.37 as of December 2013.

9) The “slow food” movement was begun in 1986 by the Italian Carlo Petrini. It advocates a way of thinking that stands in contrast to fast food, and calls for reexamining a given area’s traditional food cultures and food culture itself. Slow Food International is headquartered in Torino and currently has more than 100,000 members in more than 150 countries.

Section 2 Initiatives to increase sales and profits

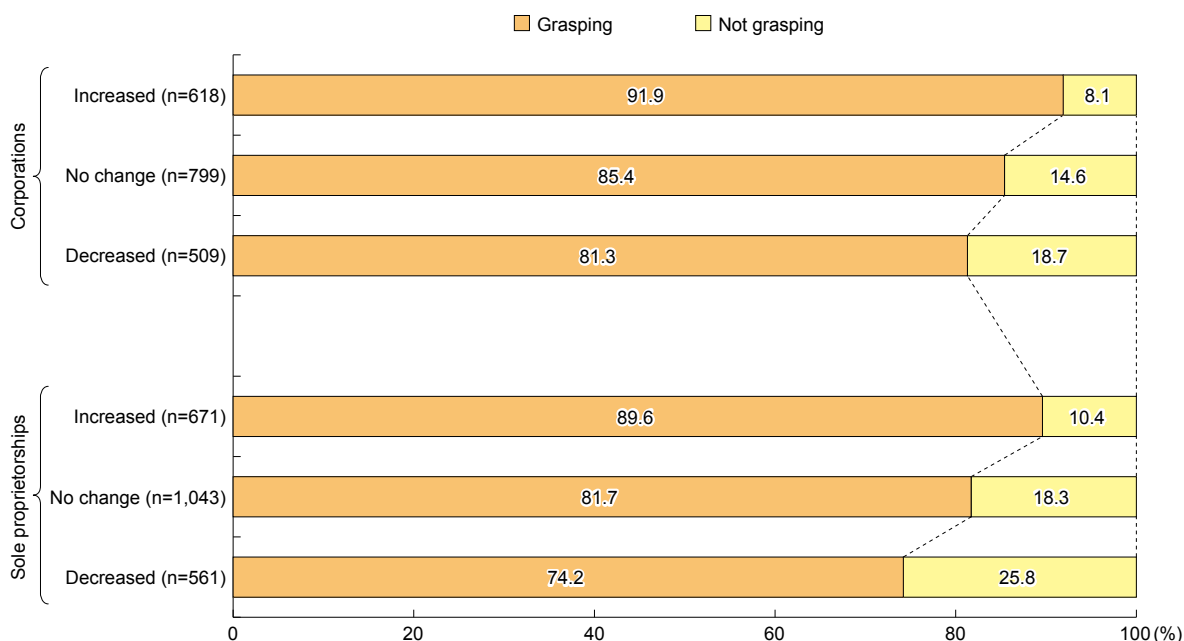
1. Grasping needs of trade areas and clients

(1) Grasping needs of trade areas and clients

In subsection 1, we look at the status of efforts to grasp the needs of trade areas and clients and the issues involved in such initiatives. To begin with the subject of the relationship between initiatives toward addressing client needs and performance trends, a glance at Fig. 2-3-

4 shows those enterprises whether corporations or sole proprietorships whose volume of sales is trending upward are more likely to be working at grasping client needs.

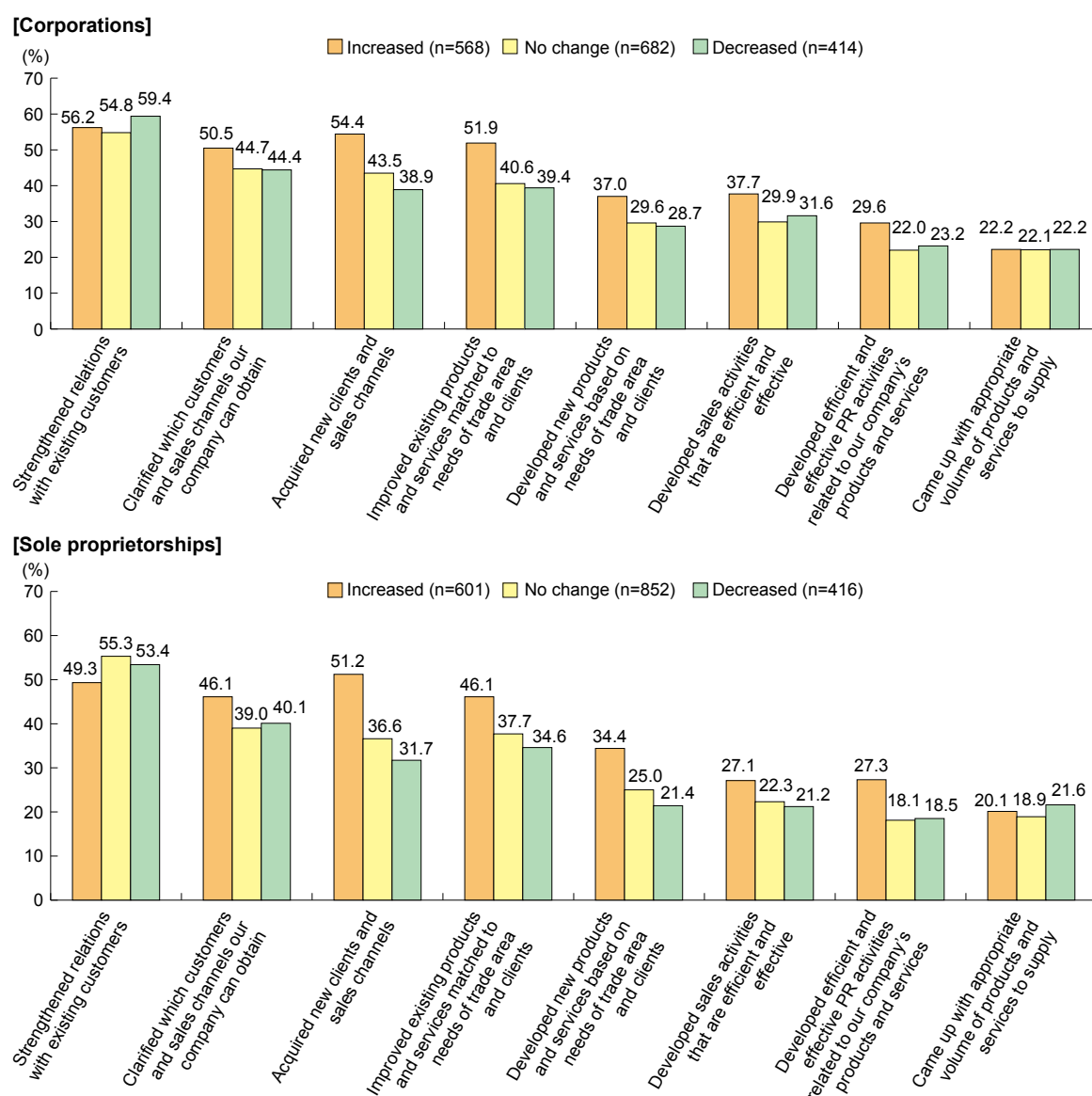
Fig. 2-3-4 Situation regarding grasping client needs, by form of organization and trends in volume of sales



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Next, we consider the effects produced by grasping client needs. Fig. 2-3-5 presents the effects broken down by whether an enterprise is a corporation or sole proprietorship, and by trends in volume of sales. It shows that those enterprises for which the volume of sales is on the upswing regardless of organization form are more likely to experience such effects as “Clarified which customers and sales channels our company can obtain,” “Acquired new clients and sales channels,” and “Improved existing products and services matched to needs of trade

area and clients.” On the other hand, a large proportion of those enterprises seeing their volume of sales decline experienced effects in the area of “Strengthened relations with existing customers.” Strengthening relations with existing customers is an important element of business activities. However, this result suggests for further improvements performance it is crucial to undertake initiatives aimed at acquiring new clients as well as initiatives aimed at developing new products and services that also improving existing ones.

Fig. 2-3-5 Effects of grasping client needs, by form of organization and trends in volume of sales

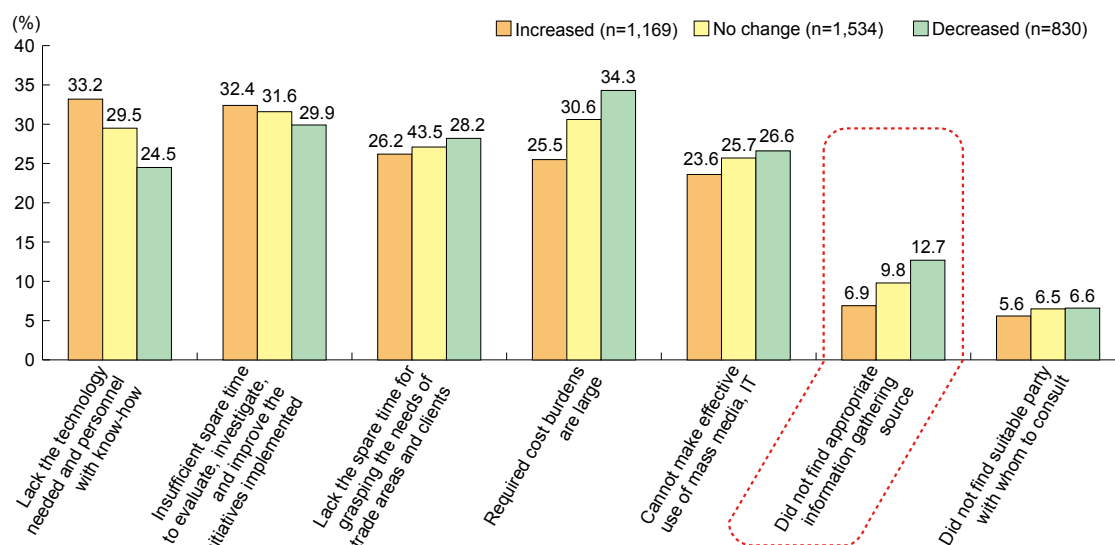
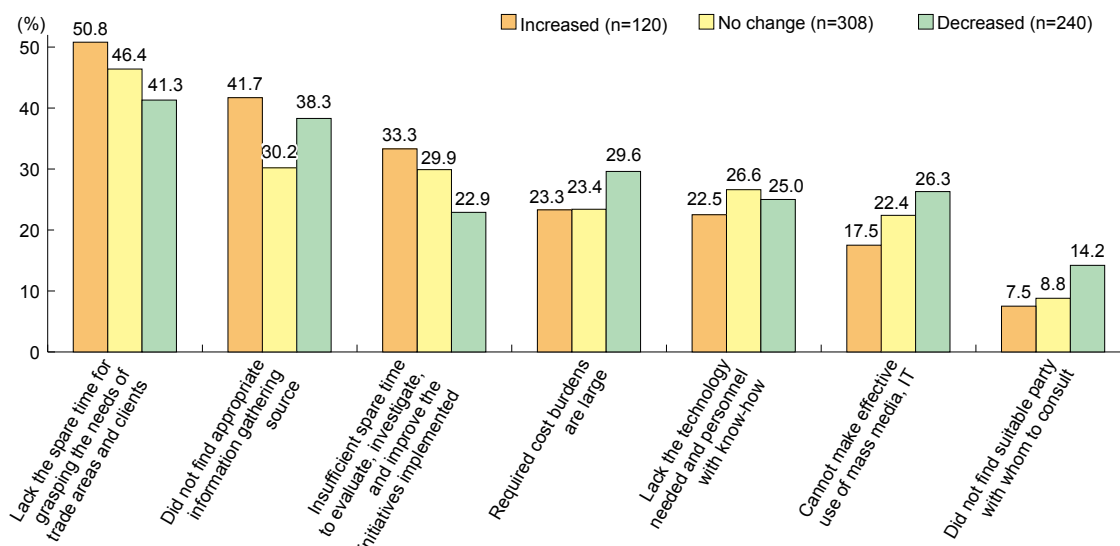
Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

(2) Issues in grasping client needs

What sorts of issues arise when it comes to grasping client needs? Fig. 2-3-6 looks at these issues broken down by whether an enterprise has or has not grasped the needs of their trade area and their clients, as well as based on the direction in which their volume of sales is trending. It shows the most common issue among those enterprises who have not grasped their client needs to be “Lack the spare time for grasping the needs of trade areas and clients” and “Did not find appropriate information gathering source.” The difference between

those enterprises that have grasped client needs and those that have not was particularly striking with respect to the “Did not find appropriate information gathering source” response. Likewise, even among those businesses that have grasped client needs the differences were striking on this point between those businesses whose volume of sales was increasing and those whose volume was decreasing. Thus, it can be said that finding a suitable source for information is a crucial factor when it comes to grasping client needs.

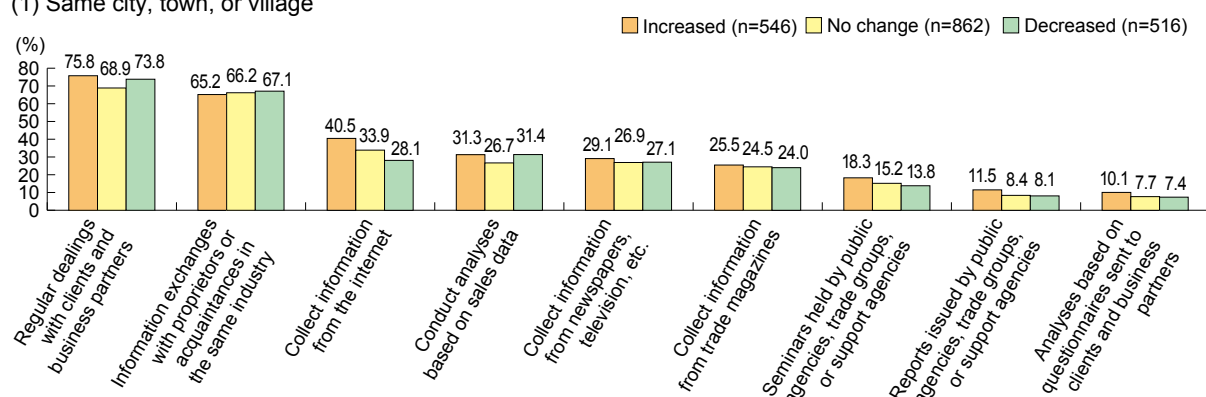
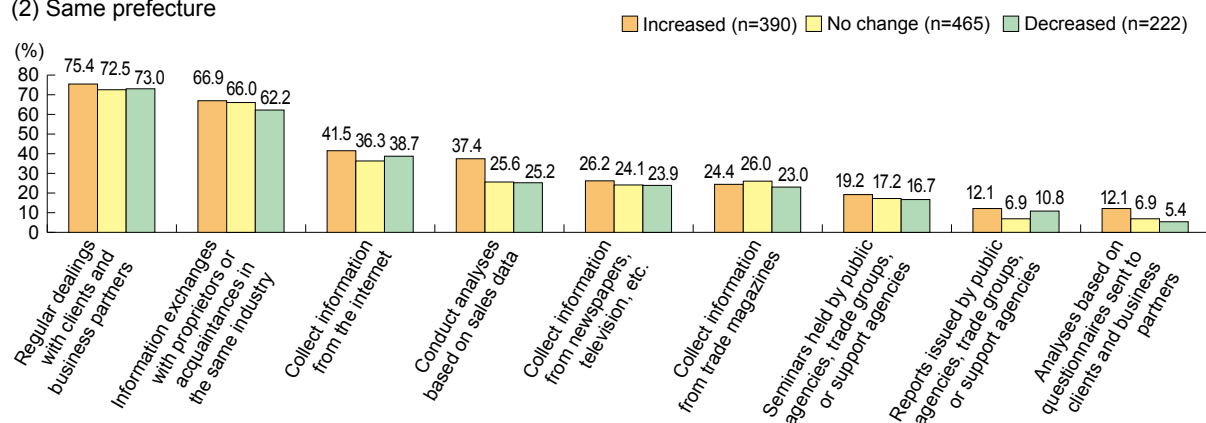
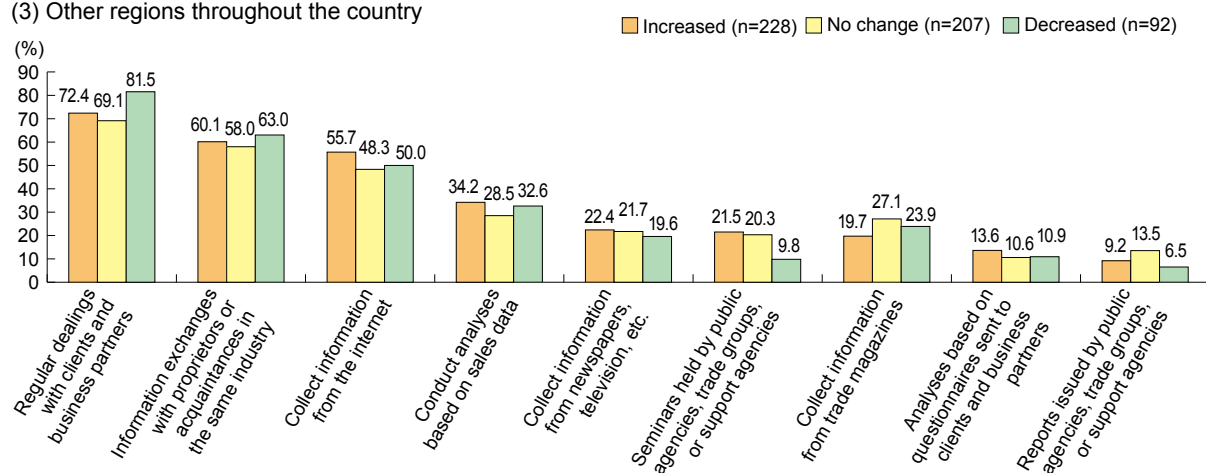
Fig. 2-3-6 Issues in grasping client needs, by most recent trends in volume of sales**[Grasping client needs]****[Not grasping client needs]**

Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-3-6 attempts an analysis of appropriate information gathering sources, a matter of interest when it comes to grasping client needs. Fig. 2-3-7 examines those sources used toward grasping needs of trade areas and clients, broken by trade areas and trends in volume of sales. It shows that regardless of the scope of their trade areas, enterprises most frequently gather information through “Regular dealings with clients and business partners” and “Information exchanges with proprietors or acquaintances in the same industry.” At the same time, enterprises whose sales were on the upswing were more likely to also make efforts to “Collect information from the internet” and “Conduct analyses based on sales data.”

In subsection 1, we have analyzed initiatives aimed at grasping needs of trade areas and clients and the issues involved. The analysis showed that most enterprises whose volume of sales was on an upward trend were able to acquire new clients by grasping those respective sets of needs. It suggests that to get an increase in sales requires analyzing what it is that clients want while simultaneously giving careful thought to what it is one’s own company can offer them as well as what the strengths of one’s own company are that set it apart from other enterprises. Accordingly, in subsection 2 we will analyze the state of initiatives micro businesses are undertaking to grasp their own strengths.

Fig. 2-3-7 Information sources for grasping client needs, by trade area and trends in volume of sales**(1) Same city, town, or village****(2) Same prefecture****(3) Other regions throughout the country**

Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Case 2-3-1 Saga Cardboard Firm Co., Ltd.

A company that is bringing traditional craft products to the world's wealthy through the development of unique products

Saga Cardboard Firm (employees: 23; capital: ¥10 million), located in Arita City, Saga Prefecture, manufactures and markets cardboard boxes and packing materials for the packaging of Arita-yaki pottery products. Established in 1958, up to the present the company has sold cardboard boxes and packing materials for personal and business use, specifically focusing on potteries and trading companies in Arita City.

In 1990, Arita-yaki pottery achieved sales of ¥15.8 billion, but as a result of factors including an influx of cheap imports, that figure had declined to ¥2.1 billion in 2010. Given that 60% of the working population of the Arita region works in businesses related to Arita-yaki pottery, the situation inspired a sense of crisis in Keizo Ishikawa, Saga Cardboard Firm's President. Mr. Ishikawa therefore took up communicating the beauty of Arita-yaki pottery to the world and the revitalization of the economy of the Arita region as the missions of his company, and, in collaboration with local potteries, commenced efforts to develop Arita-yaki pottery-related products in 2003.

The first products Mr. Ishikawa focused his attention on were kaleidoscopes. During a period when he was sick in bed, Mr. Ishikawa became fascinated by the beauty of kaleidoscopes, and came up with the idea of making an Arita-yaki pottery version. However, the standards for kaleidoscopes require precision, and adapting ceramics, which change their shape according to the degree of heat applied, proved an extremely difficult task. Seeking to solve this problem, Mr. Ishikawa launched the Arita Pottery Kaleidoscope Study Group, bringing together specialists in 12 industries, including representatives of major potteries and kaleidoscope artists. These specialists from different industries combined their knowledge and engaged in a process of trial and error in relation to factors such as cylindrical shapes and firing methods. Finally, by making the grains in the potter's clay they were using as the material uniform, they succeeded in producing an Arita-yaki pottery kaleidoscope.

They entered the finished kaleidoscope in an annual kaleidoscope exhibition in the US, where the delicate craft technique that had gone into its making was highly regarded, and the group began to receive inquiries from overseas department stores. The reception of the kaleidoscope overseas also came to the attention of domestic department stores, and sales destinations in Japan increased. The kaleidoscopes went on sale in 2004, and within a year had reached sales figures of ¥130 million.

This exhibition made Mr. Ishikawa realize that Japanese craft products were well received by the wealthy overseas, leading him to collaborate with prestigious brands in Japan and overseas, incorporating Arita-yaki pottery in luxury goods such as fountain pens and watches. The collaboration between Arita-yaki pottery and leading brands enhanced the region's formerly declining brand power and strengthened its sales network. Sales of various Arita-yaki products became stronger, and the company recorded its highest-ever ordinary income ratio for the fiscal year ending December 2016. Mr. Ishikawa's desire is to continue to use traditional Arita-yaki techniques in the development and sale of unique high-value-added products targeting wealthy customers throughout the world.



The company's Arita-yaki pottery products

2. Grasping and making use of a micro business's strengths

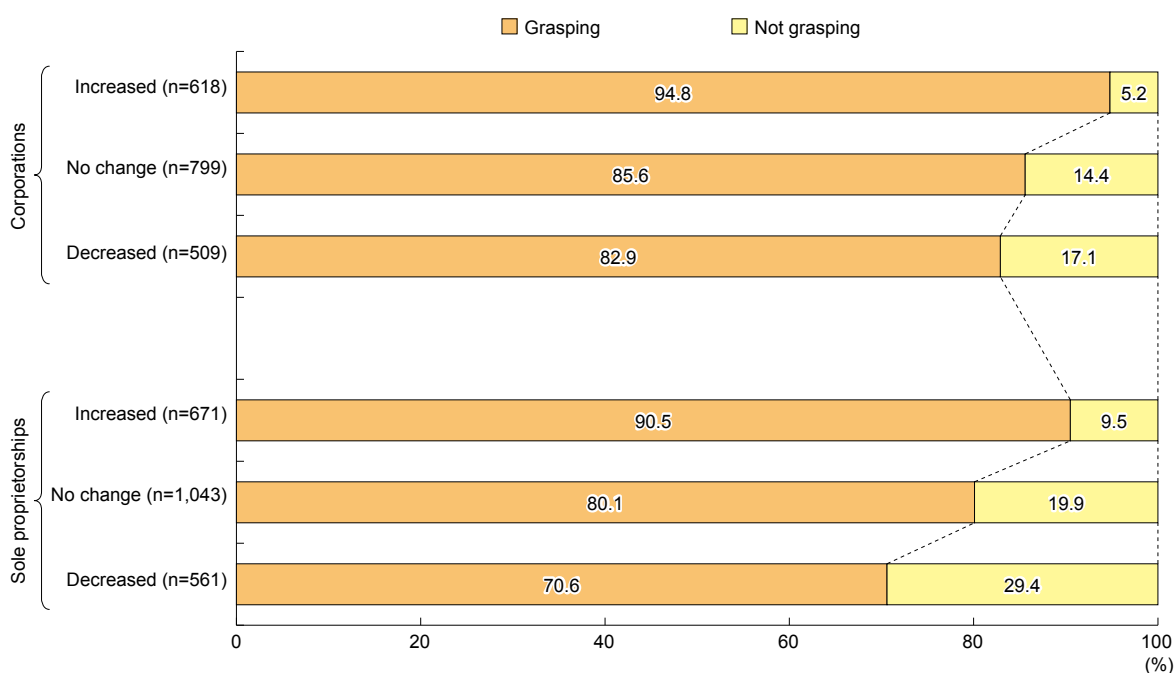
(1) Situation regarding grasping strengths and initiatives toward doing so

In subsection 2, we will analyze initiatives micro businesses are undertaking to grasp their own strengths, the nature of those strengths, and the issues involved in the process of grasping those strengths.

First, we begin as we did when analyzing initiatives

aimed at grasping needs of trade areas and clients by considering state of these efforts by micro businesses to grasp their own strengths and trends in volume of sales. Fig. 2-3-8 shows that sales tend to increase among businesses that have such a grasp whether corporations or sole proprietorships.

Fig. 2-3-8 Situation regarding grasping own company's strengths, by form of organization and trends in volume of sales

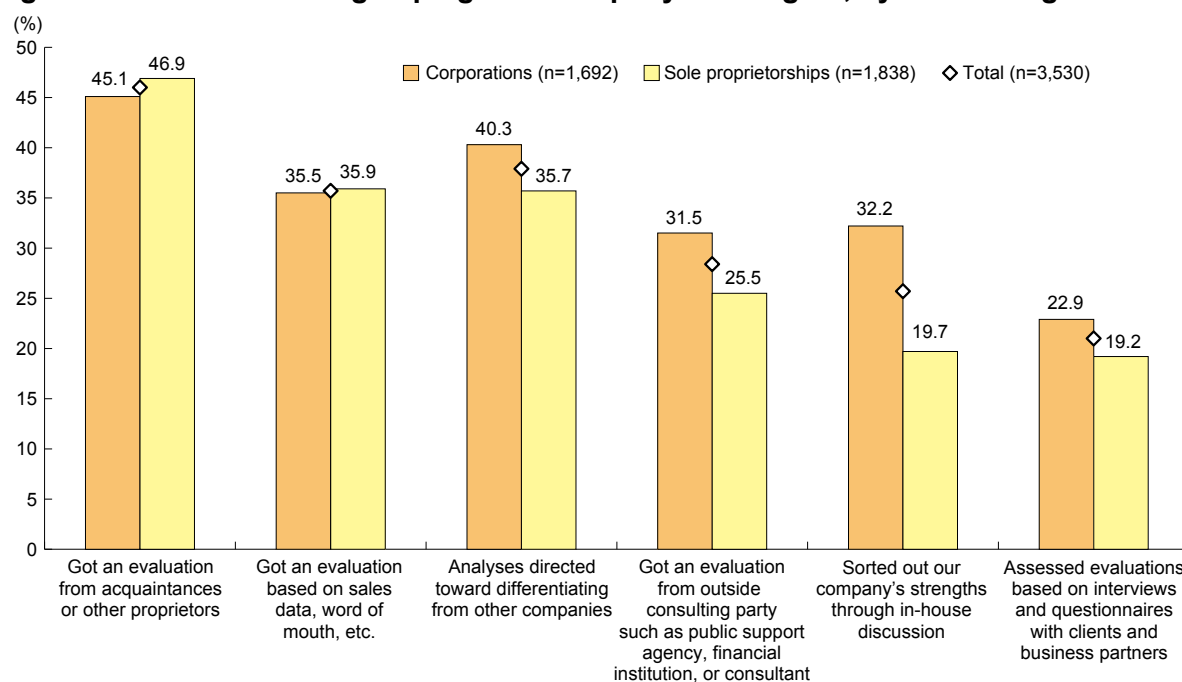


Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Next, Fig. 2-3-9 considers such initiatives broken down by form of organization. It shows that generally speaking micro businesses have grasped their own strengths due to having “Got an evaluation from acquaintances or other

proprietors” and “Got an evaluation based on sales data, word of mouth, etc.” As to other kinds of initiatives, there is a stronger tendency for corporate enterprises to undertake them than sole proprietorships.

Fig. 2-3-9 Initiatives for grasping own company’s strengths, by form of organization



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

(2) Strengths of micro businesses

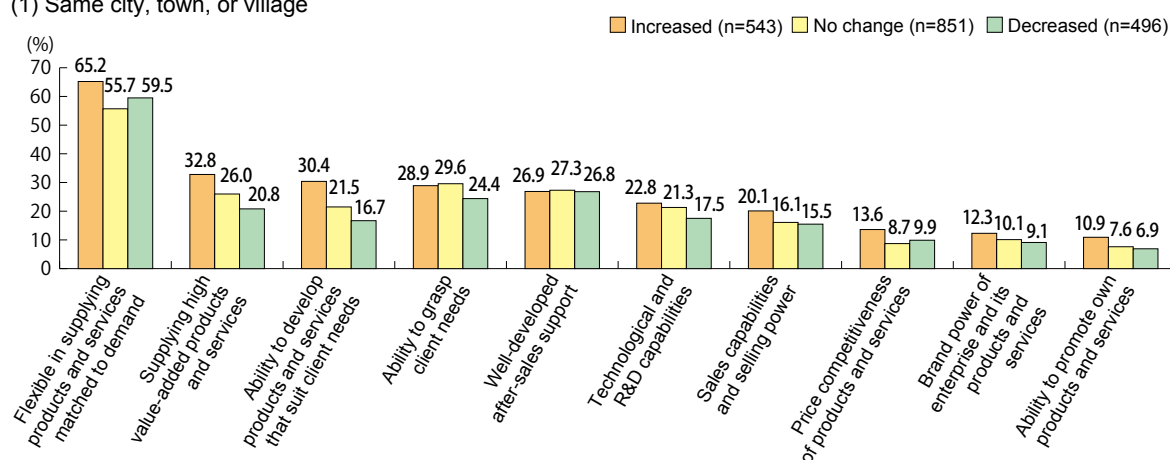
Here, we look at what micro businesses believe to be their own strengths. Fig. 2-3-10 shows these strengths broken down by trade area and trends in volume of sales. The figure shows that many micro businesses see “Flexible in supplying products and services matched to demand” as one of their strengths regardless of the scale of their trade area.

Looking next at the differences related to trade area, the figure shows that those enterprises with the same city, town, or village in which they are located as their trade area were proportionately more likely to answer “Well-developed after-sales support” compared to other enterprises. Meanwhile, enterprises whose trade area was either the prefecture in which they were located or else other regions throughout the country more likely

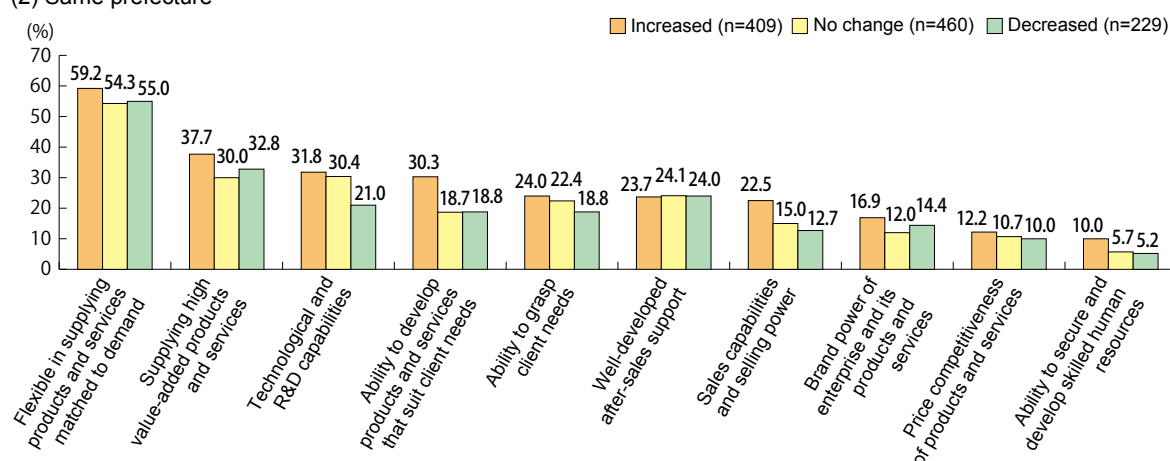
comparatively speaking to offer “Technological and R&D capabilities” as a strength. Furthermore, those enterprises focusing on other regions throughout the country were most likely to cite “Brand power of enterprise and its products and services.” Given that enterprises with narrower trade areas are more likely to be community-based businesses, it may be surmised that they tend to acquire clients by responding to the demands of clients in their communities and by directing energies toward offering granular after-sales support. Furthermore, the figure also suggests that enterprises with more expansive trade areas tend to sense the brand power of their products and services, their price competitiveness, and the PR ability as strengths, and they undertake initiatives to differentiate themselves from other companies.

Fig. 2-3-10 Strengths of own company, by trade area and recent trends in volume of sales

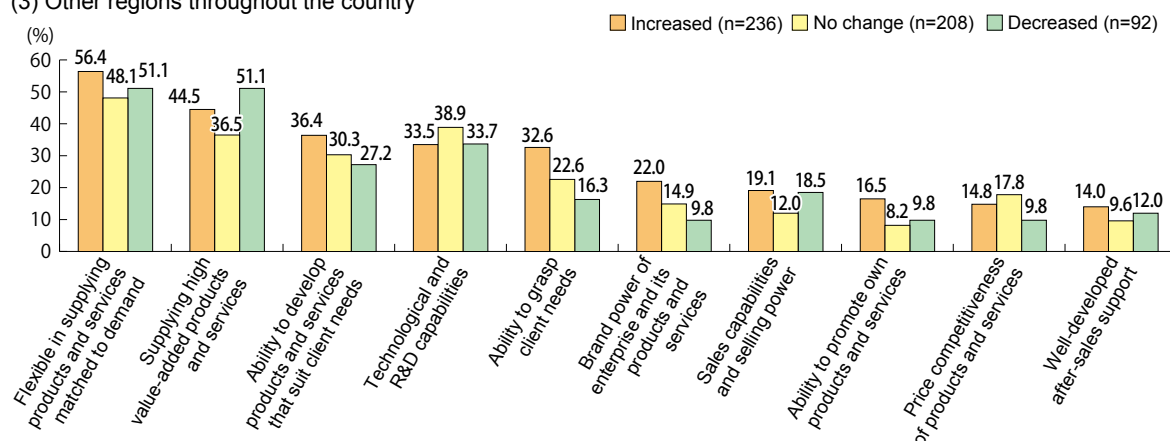
(1) Same city, town, or village



(2) Same prefecture



(3) Other regions throughout the country



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

(3) Issues in grasping strengths and effects of doing so

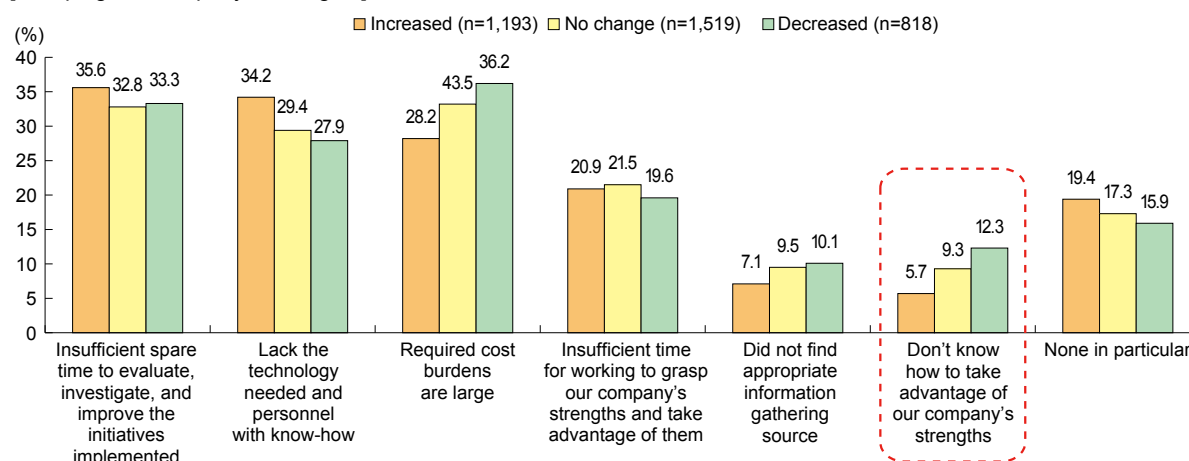
Next, we examine the issues that arise with micro businesses working to grasp their own strengths. Fig. 2-3-11 looks at these issues broken down by whether an enterprise is engaged in such efforts and by their form of organization. Generally speaking, it can be surmised that time factors are an issue among enterprises that have not grasped their own strengths, as the “Insufficient time for working to grasp our company’s strengths and take advantage of them” and “Insufficient spare time to evaluate, investigate, and improve the initiatives implemented” responses suggest. Focusing in particular on enterprises among these who are experiencing declines in their volume of sales shows that they face problems related to methods for getting a sense of their strengths and making the most of them, as such responses as “Don’t

know how to take advantage of our company’s strengths” and “Did not find appropriate information gathering source” suggest. Furthermore, among those enterprises that do have a grasp of their own strengths a difference exists between those whose volume of sales is increasing and those whose volume is decreasing as their ratio of those which indicate “Required cost burdens are large” and “Don’t know how to take advantage of our company’s strengths” as issues suggests.

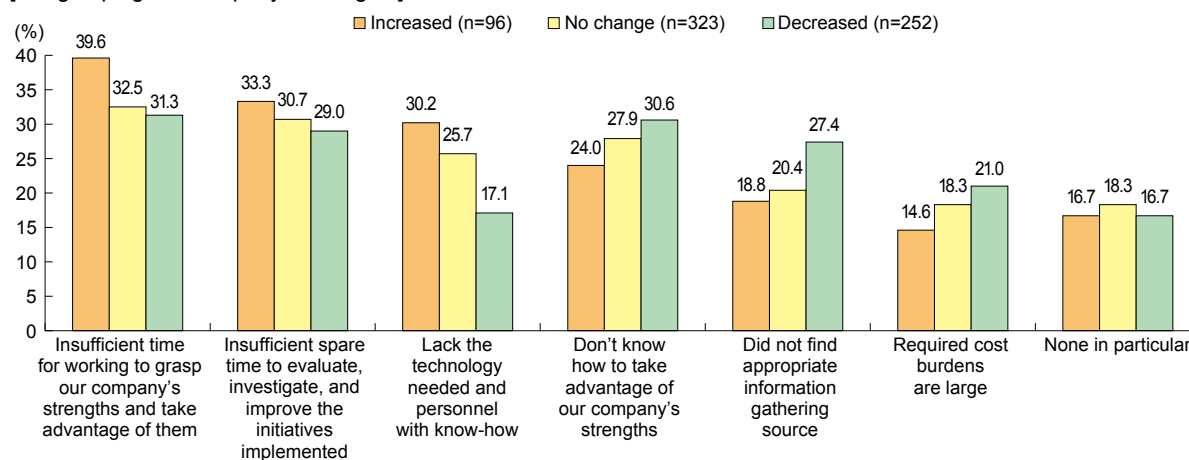
Thus, it can be surmised that regardless of whether an enterprise sees itself as having particular strengths or not, those enterprises whose volume of sales is on the downswing are more likely to face the issue of not knowing methods for making use of any strengths. On this point, let us look at next at specific methods for doing so through analyzing the effects produced by grasping one’s own strengths.

Fig. 2-3-11 Issues in grasping own company’s strengths, by recent trends in volume of sales

[Grasping our company’s strengths]



[Not grasping our company's strengths]



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

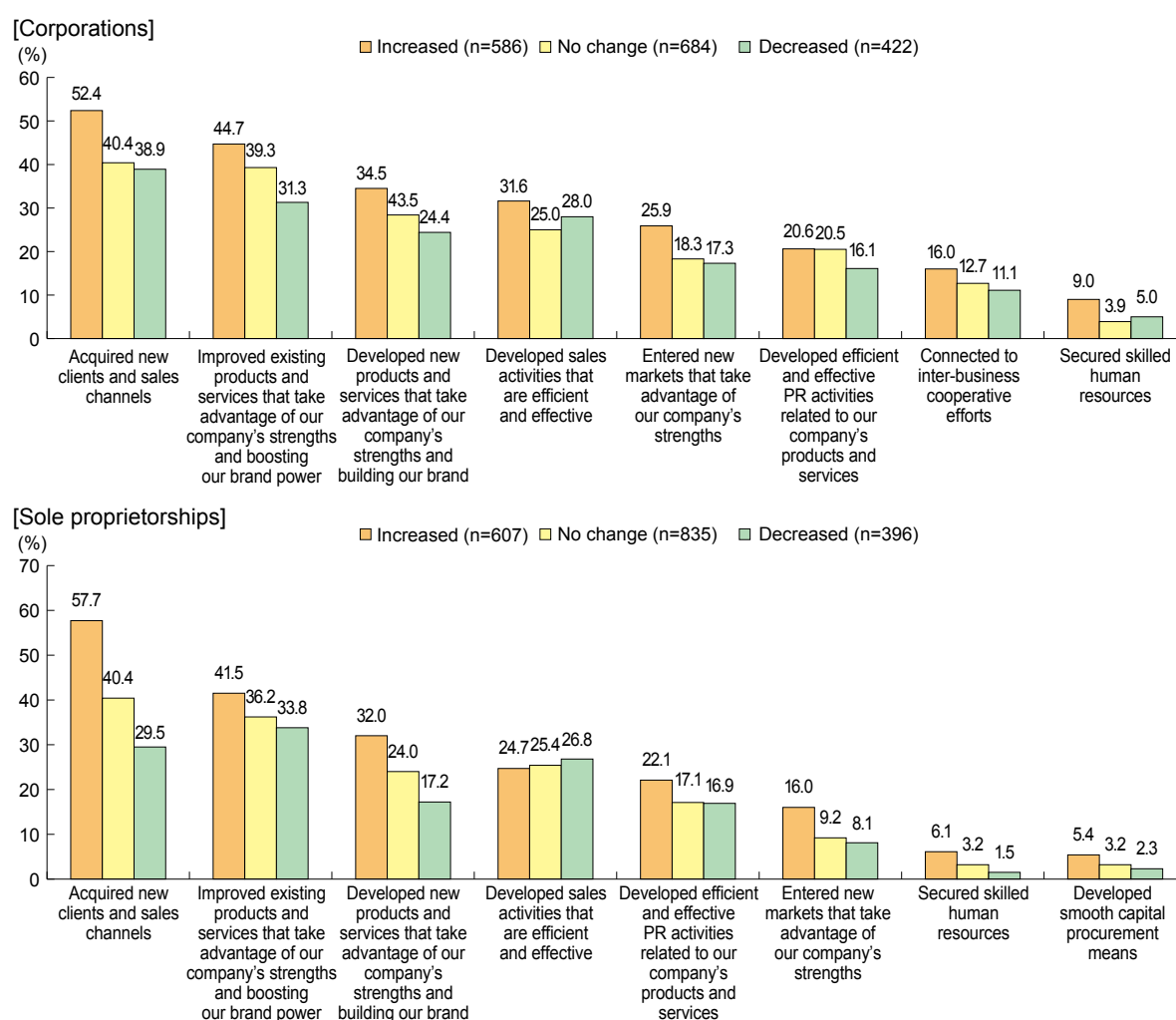
Note: Total does not always equal 100% as multiple responses were possible.

What sorts of effects on what points does a micro business sense it obtains from grasping its own strengths? Fig. 2-3-12 presents answers to this question broken down by whether an enterprise is a corporation or sole proprietorship and by trends in volume of sales. It shows that regardless of form of organization the effects enterprises get have included “Acquired new clients and sales channels,” “Improved existing products and services that take advantage of our company’s strengths and boosting our brand power,” and “Developed new products and services that take advantage of our company’s strengths and building our brand.” In particular, among sole proprietorships 57.7% of those enterprises whose

volume of sales was on the upswing experienced the effect of acquiring new clients and sales channels versus on 29.5% of those enterprises with a downward-trending volume of sales.

Meanwhile, when we focus on corporate enterprises, we see that 44.7% of enterprises whose volume of sales was on the upswing achieved the effect of “Improved existing products and services that take advantage of our company’s strengths and boosting our brand power” versus 31.3% of enterprises with volumes trending downward. This indicates that trends in volume of sales generated differences in the effects produced by grasping one own company’s strengths.

Fig. 2-3-12 Effects of grasping own company’s strengths, by form of organization and trends in volume of sales



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Case 2-3-2 Tajima Technica Co., Ltd.

A company that diversified from B to B to B to C, and established a new brand

Tajima Technica Co., Ltd. (employees: 11; capital: ¥10 million), located in Yoshinogawa City, Tokushima Prefecture, is a company that specializes in procedures including the slicing, precision cutting and lamination of foam materials. The company's main customers are Tokushima Prefecture footwear manufacturers, who it supplies with semi-finished parts processed from a variety of foams. Some years back the company began to focus on the superior flexibility and durability of the EVA materials it worked with, and since 2014 it has also manufactured and marketed variety goods such as tablet cases and trinket boxes manufactured from EVA.

Since the 1990s, footwear manufacturers and wholesalers have progressively moved towards local manufacture and sale in China, and it has been difficult for material processing and machining companies to survive. Tajima Technica's Representative Director, Junji Tajima, and Yoko Iwayama, its Director, felt the necessity of developing a new business. They saw that as Japan's population declined, the footwear market was also shrinking, and that it would be essential to develop higher value-added products and cultivate a new customer base. While the company's customers had previously mainly been companies in neighboring prefectures, in considering a new business, they changed their focus and decided to target ordinary consumers throughout the country. Ms. Iwayama turned her thinking towards the EVA materials used by the company: "Despite the fact that they are tough and light and offer excellent cushioning, they are not generally well known. I wanted us to appeal to the excellence of the materials themselves," she says. This line of thought led to the idea of manufacturing and marketing variety goods making use of the distinctive characteristics of EVA materials.

In order to develop a range of products and a rich array of designs, equipment allowing free machining of EVA materials was necessary. Ms. Iwayama therefore used a grant from the SME Agency's Support Project for the Use of Regional Industrial Resources to introduce cutting machines. This made it possible to freely cut EVA materials in accordance with designs created on a computer, and marked the beginning of the fully-fledged development of the company's Coddle Series, the general name under which it manufactures and markets variety goods.

The company was energetic in exhibiting in trade fairs as a means of cultivating sales channels for the Coddle Series, targeting variety stores and companies operating e-commerce sites in particular. In addition, Coddle products were selected as the subjects of orders by the Tokushima Prefecture Program for Promoting the Trial Purchase of New Products for two years in succession from 2016, and the fact that a government agency was seen to get behind the products increased confidence in the Coddle brand.

In addition to its business in variety goods, Tajima Technica has begun to expand its business to companies and stores, exploiting the three-dimensionality of EVA materials to manufacture and market sales tools such as store displays and signboards. In the future, the company wants to continue to develop the Coddle Series until its sales represent around 50% of its total sales.



Tajima Technica's CODDLE Series

3. PR¹⁰⁾ activities and improving name recognition

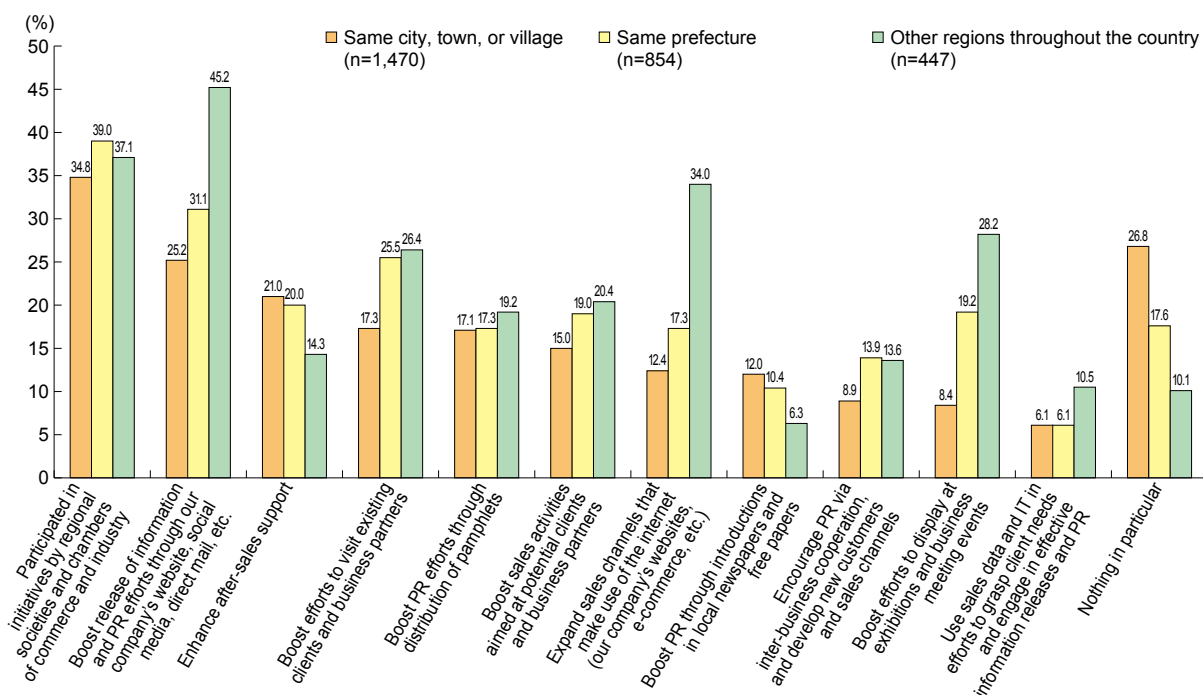
(1) Initiatives in area of PR activities and improving name recognition

In subsection 3, we will analyze the initiatives that micro businesses are undertaking with regard to PR activities and improving name recognition. Advances in IT technology have made it possible for clients to easily obtain a variety of information about products and services. For micro businesses, using IT to do PR presents opportunities for expanding their sales channels to even reach clients who until now have not been in their trade areas. For this reason, it is necessary for micro businesses seeking to expand sales to undertake PR activities that actively make clients aware of the business itself as well as its products and services. Furthermore, as Fig. 2-3-10 also showed enterprises whose volume of sales was

on the upswing tended to put greater emphasis on their PR abilities and brand power the larger their trade area was. This suggests that PR activities and improving name recognition with respect to one's own strengths are crucial.

First, Fig. 2-3-13 looks at the PR activities directed at enterprises that micro businesses undertake regarding their own products and services, broken down by trade area. The figure shows a strong tendency for such businesses to have “Participated in initiatives by regional societies and chambers of commerce and industry.” It also evident that as the trade area expands the micro business is more likely to put effort into activities that make use of the internet.

Fig. 2-3-13 Initiatives in area of PR activities, by trade area (enterprise)



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

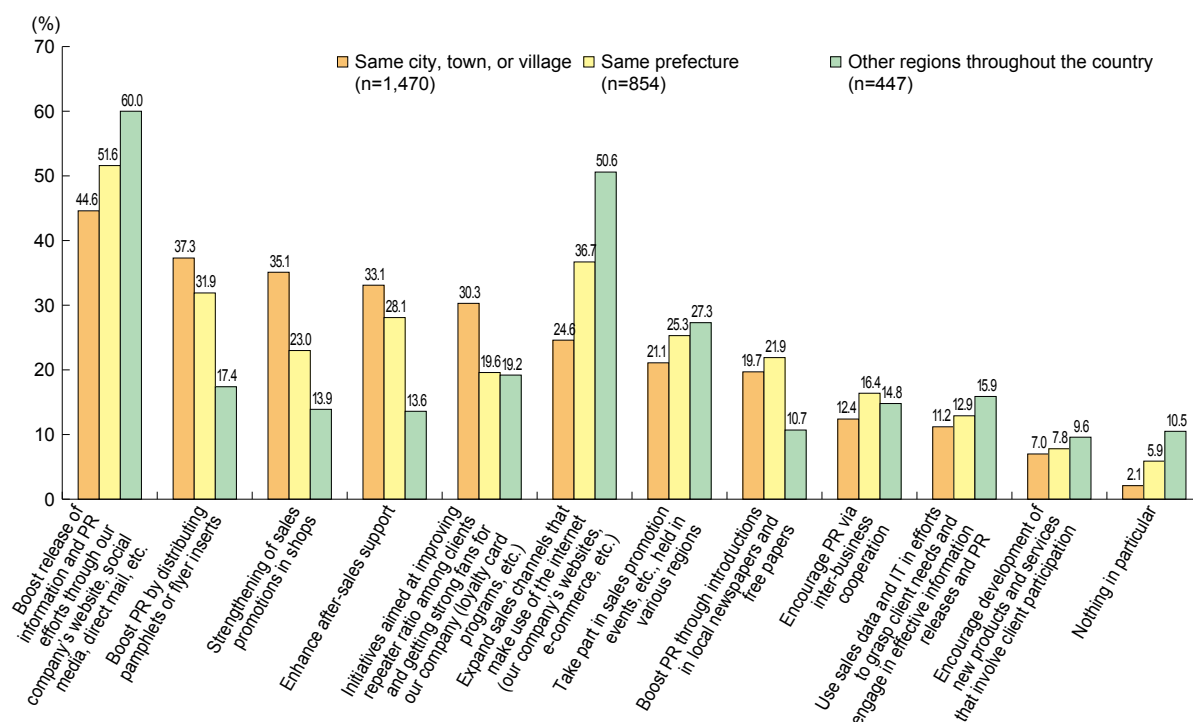
Note: Total does not always equal 100% as multiple responses were possible.

10) Public relations. Public relations (PR) activities comprise a company's efforts to compile information about itself and its products and services and deliver it to stakeholders such as clients and the marketplace. These activities go beyond simple advertising to include a variety of strategic efforts such as grasping potential demand by collecting data on how one's own company is evaluated, what market needs are, releasing information via websites, and making effective use of media of all kinds with the overall objective of building good relationships with those stakeholders.

Fig. 2-3-14 shows PR activities directed toward the average consumer. From this it can be surmised that activities using the internet comprise an important initiative in this area. Looking more closely at businesses with their same city, town, or village as their trade area, we see they also tend to devote energies toward such

initiatives as distributing pamphlets and flyer inserts along with sales promotions in shops and enhancing after-sales support. From this it may be surmised that emphasizing community connections and engaging in face-to-face initiatives are important means for PR activities directed at the average consumer.

Fig. 2-3-14 Initiatives in area of PR activities, by trade area (average consumer)



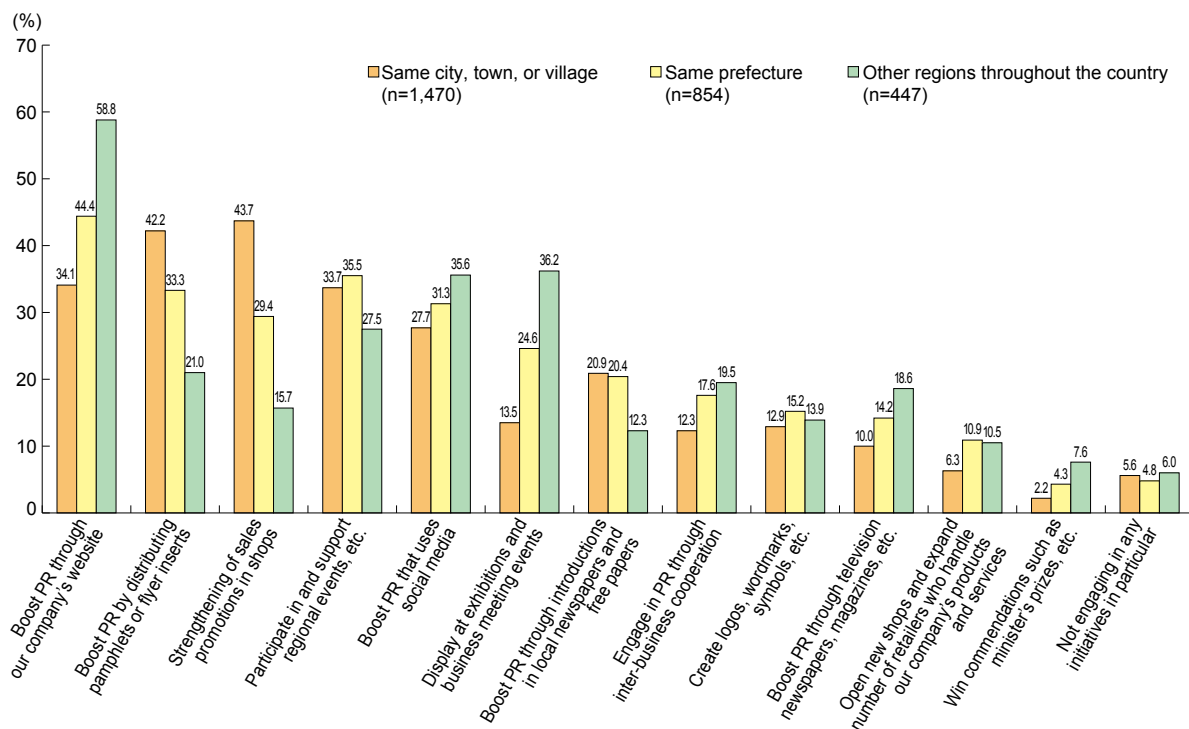
Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Next, let us look at initiatives by micro businesses related to increasing their own name recognition. Fig. 2-3-15 suggests that the bigger a business's trade area, the more likely it is to direct energies to such initiatives as "Boost PR through our company's website," "Boost PR

that uses social media," and "Display at exhibitions and business meeting events." Meanwhile, businesses with their same city, town, or village as their trade area tend to focus on "Boost PR by distributing pamphlets or flyer inserts" and "Strengthening of sales promotions in shops."

Fig. 2-3-15 Initiatives toward improving own company's name recognition, by trade area



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

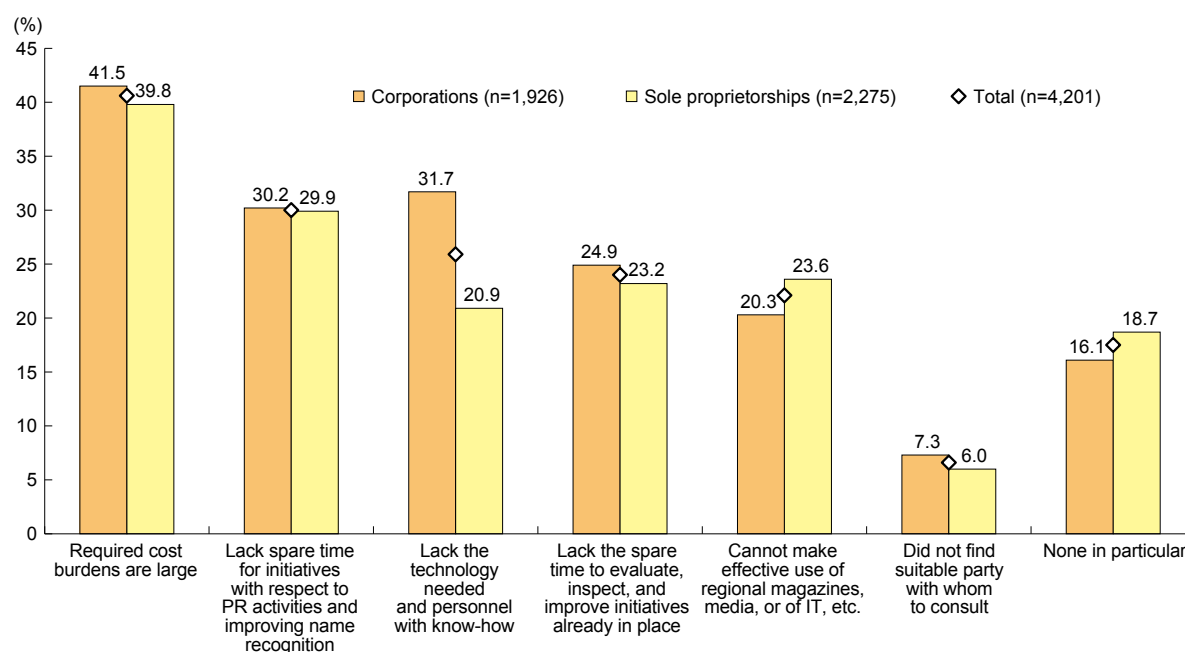
(2) Issues with initiatives in area of PR activities and improving name recognition

Now we examine issues when it comes to PR activities. Looking at Fig. 2-3-16, it may be surmised that as has been seen with other areas the issues here are likewise those of cost burdens and spare time. In particular, among corporate enterprises there is a tendency for a lack of the technology needed and human resources with know-how to be an issue.

Thus, it is evident that for micro businesses the biggest issue regardless of what activity they undertake is a lack of human resources and not having enough spare time. In

Section 3, we will analyze the initiatives related to securing these crucial human resources to solve these issues and the problems involved. Additionally, given these limits on management resources that micro businesses face, it may be assumed that outsourcing some work would be a useful means for resolving the aforementioned issues. With this thinking in mind, in addition to our analysis regarding securing human resources we will also analyze later the actual situation regarding micro businesses making use of outsourcing and the issues involved.

Fig. 2-3-16 Issues in area of PR activities, by form of organization



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Case 2-3-3 Oirase Mossball Workshop

**A micro business that is introducing the world to a regional resource
- moss - via SNS and overseas trade exhibitions**

Oirase Mossball Workshop, located in Towada City, Aomori Prefecture, is a business that manufactures and organizes displays and sales of moss balls and gourd lamps, and runs classes that allow participants to experience making the objects. The Oirase River, which runs close to the company's base, has been designated a Special Place of Scenic Beauty and a National Monument, and is well known as a picturesque environment in which visitors can enjoy the changing seasonal scenery. With the recognition of the area as a Japan Precious Moss Forest in 2013, the number of tourists coming to view the moss is increasing, and tourists visiting the Oirase River make up the core of Oirase Mossball Workshop's customers.

After a period as an American football player, Oirase Mossball Workshop's Representative, Takashi Okita, was a successful professional wrestler until 2011. Following his retirement, he returned to Aomori Prefecture, where he took up making moss balls as a natural extension of the cultivation of bonsai trees, his hobby from his wrestling days. Seeing business potential, Mr. Okita began manufacturing and selling moss balls. In recent years, awareness of the Oirase River as an environment in which a large number of varieties of wild moss grow has increased, and Mr. Okita considered that if he could successfully establish a link between moss balls and the Oirase River, it would provide a platform for the branding of his product. Coming up with the concept of offering customers a "mini Oirase" (i.e., reproducing the scenery of the Oirase River using moss balls), he established his production and sales base by the river in 2012.

In order to increase the number of visitors to his workshop, Mr. Okita actively engaged in publicity activities via SNS and his blog. The interest readers found in his articles increased access numbers, and awareness of the company also increased. One of Mr. Okita's strategies was to push to the fore the discrepancy between his image of strength he projects as a former professional wrestler and the soothing and relaxing image of moss balls and the natural environment of the Oirase River by means of photographs posted on his SNS and blogs. And by posting with a high frequency, he ensured that his posts would receive hits in searches for "Oirase."

Mr. Okita wanted to offer tourists an experience in addition to their enjoyment of the Oirase River scenery, and now holds classes in which participants can experience making moss balls and gourd lamps. Here also, Mr. Okita has established a strategy to increase awareness of his business by making it a topic of conversation. This is that participants in his classes wear green berets while making moss balls and gourd lamps. Mr. Okita says, "When I upload commemorative photos of classes with people wearing green berets, the visual impact of the pictures attracts attention."

The number of overseas tourists visiting Mr. Okita's workshop has recently increased, but moss balls are not suitable as souvenirs, because quarantine restrictions make it difficult for the tourists to take the balls back home with them. In 2016, he therefore began exhibiting and selling gourd lamps as a product targeting overseas tourists. Using gourds he produces himself, to make the lamps Mr. Okita cuts holes in the gourds to create motifs following designs based on the patterns on the surface of the moss and ferns growing by the Oirase River, allowing them to be used as sources of illumination.

Mr. Okita is not only targeting overseas tourists, but also has a view towards overseas expansion. After a request to a trading company that organizes product exhibitions in Taiwan, he was able to exhibit and sell his gourd lamps in a product exhibition held in the country in 2015. Because he funded the exhibition of his products himself, he ended up in the red, but Oirase Mossball Workshop was taken up in local Aomori Prefecture newspapers as a company that is advancing from Oirase to the world, and the initiative ultimately generated a great deal of PR for the company within the prefecture. In June 2017, Mr. Okita has the opportunity to exhibit his products in a New York gallery. "I will be very happy if visitors to the exhibition are interested in my products and feel prompted to visit Oirase. Ultimately, I want to inform people throughout the world about Oirase, and make a contribution to the region," he says.



A "mini Oirase" produced using moss balls



A hands-on class: Wearing the green beret



Making gourd lamps

Case 2-3-4 FREE POWER Co., Ltd.

A company that sought to increase awareness of its unique bicycle gears by taking patents and participating in joint research

FREE POWER Co., Ltd. (employees: 3; capital: ¥9 million), located in Miyazaki City, Miyazaki Prefecture, designs and develops bicycle gears and other bicycle-related products. The “Flexi Gears” developed by the company build an elastic body known as a “special elastomer” into the pedal gear, making use of reaction force to make pedaling the bicycle faster and easier.

The company's President, Yoichiro Hamamoto, has for many years been engaged in creating products and inventions as a sideline to his career as a labor and social security attorney. In 2007, having occasion to frequently ride a bicycle, he became tired of having to strain to move the pedals when starting up again after waiting at a traffic signal, and wondered if there could be a way to realize smoother pedaling. Eventually, he hit upon the idea of bicycle gears that made use of the reaction force of rubber. Mr. Hamamoto sought to take a patent, but his application was rejected because major car and bicycle manufacturers had already taken similar patents. Mr. Hamamoto asserted his point that the purpose of the elastomer in the gear he developed was to enable reaction force to be utilized in assisting riders to pedal bicycles, rather than shock absorption, as it was in the case of the existing patents. In 2010, he was granted a domestic patent. The following year, he took patents in Taiwan and China, global hubs for the manufacture and sale of bicycles.

In 2012, he established FREE POWER in order to turn bicycle gear development into a fully-fledged business. Having no knowledge of product manufacture, he searched for a manufacturer to collaborate with him in the creation of prototypes, but it was a difficult process due to factors including a lack of funds. During this period, Mr. Hamamoto made a pitch to the president of a local manufacturer, who became interested in the idea and proved to be a kindred spirit. This enabled Mr. Hamamoto to begin the development of prototypes. “One can tend to place excessive expectations on one's own invention, but in this case it was extremely difficult to get other people to see the value of the product and to find business partners.”

With the sharing of his patent rights with a company that supports the use of intellectual property to create businesses as the starting point, Mr. Hamamoto threw himself vigorously into efforts to increase awareness of his bicycle gears, looking towards their practical realization and sale. For example, he conducted joint tests with a university laboratory, obtaining scientific proof that his gears transmitted pedaling force more efficiently than conventional gears. He also actively courted media coverage, participated in business plan contests, and submitted his products to exhibitions, among other initiatives. As he was working to increase awareness of the Flexi Gears, he cultivated partners among bicycle makers, component makers, and sales outlets, and proceeded with the development and sale of bicycles using his gears at full steam. He looks back on this time as follows: “I realized that it was because the product was well regarded by other companies and backed up by objective data, rather than everything just being based on my own enthusiasm, that I was able to secure excellent business partners for development.”

Bicycles fitted with the Flexi Gears went on sale in January 2017, with sale of the products centering on Miyazaki Prefecture. Preparations for sale of the bicycles throughout the country are now underway. In the future, Mr. Hamamoto says, “I would like to proceed with the development of bicycle components other than gears, working to design and develop better bicycles.”



The Flexi Gears developed by FREE POWER



A bicycle fitted with the Flexi Gears

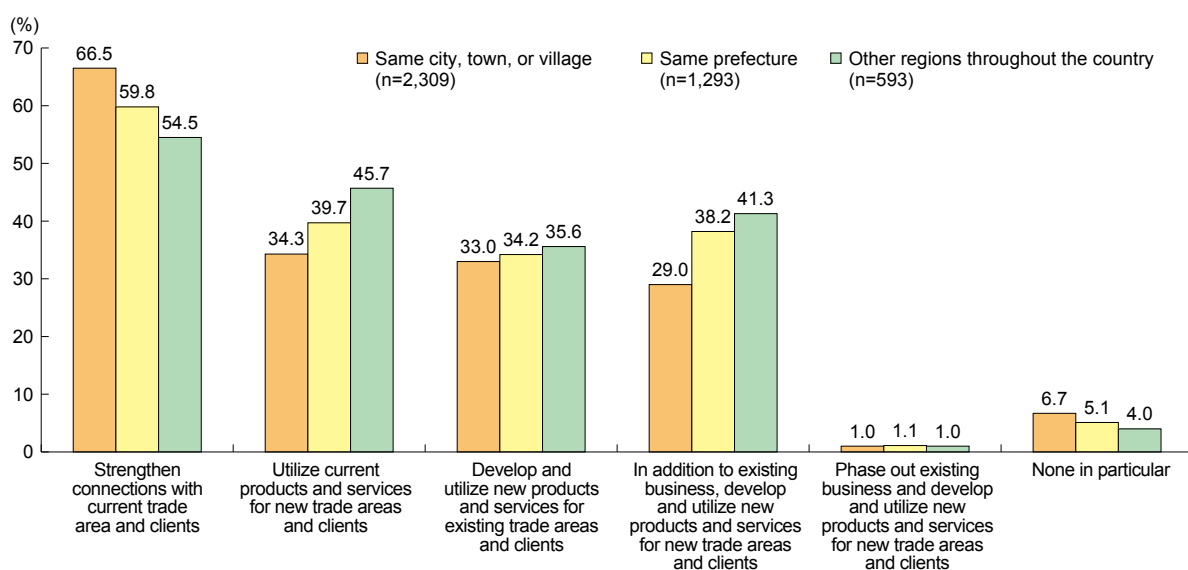
4. Implementing business policy and developing new business

(1) Business policies of micro businesses and trends in volume of sales

Here, we will analyze the relationship between the business policies micro businesses are adopting and how they actually go about their business. Through subsection 3 we have been looking at initiatives aimed at increasing sales. However, in the course of implementing these initiatives it will become necessary for a micro business to clearly set down its own business policy and then pursue these sales-related initiatives in accordance with that policy.

First, Fig. 2-3-17 looks at business policies aimed at increasing sales. The figure shows that businesses whose main trade area is their same city, town, or village tend to focus on strengthening relations with their existing trade areas and clients. Meanwhile, it is evident that as the trade area grows larger the micro business is more likely to make it a policy to direct their efforts to new trade areas and clients and to develop and utilize new products and services.

Fig. 2-3-17 Business policy of own company, by trade area



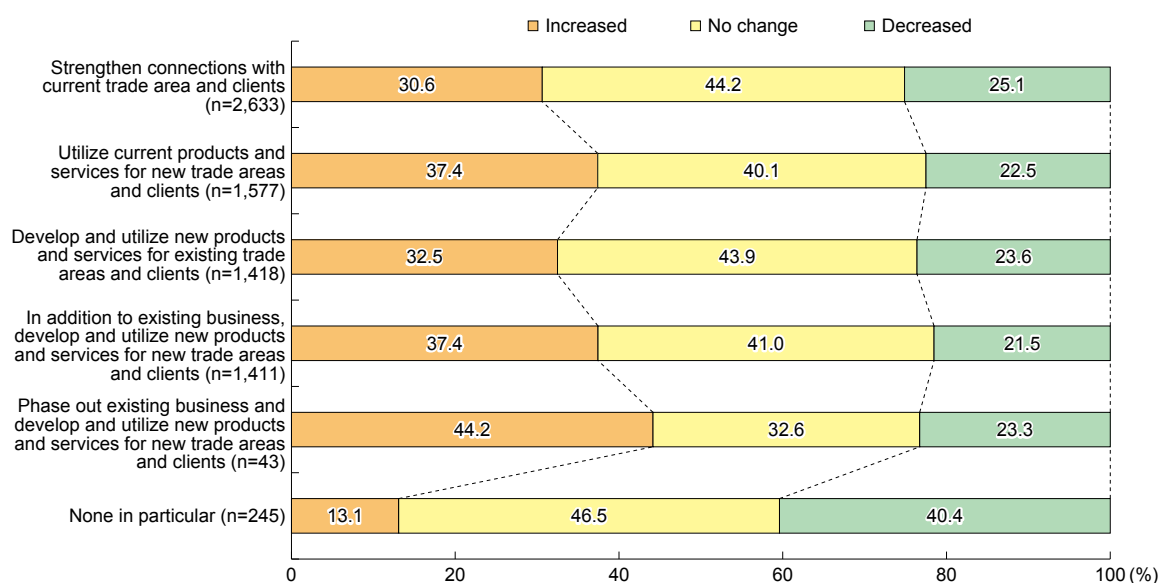
Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Next, let us assess the relationship between the aforementioned business policies and trends in volume of sales. Fig. 2-3-18 shows that the policy for which volume of sales trends the highest is “Phase out existing business and develop and utilize new products and services for new trade areas and clients.” This is followed in order by “Utilize current products and services for new trade areas and clients” and “In addition to existing business,

develop and utilize new products and services for new trade areas and clients.” Thus, we can see once again that initiatives aimed at developing and utilizing new products and services as well as initiatives aimed at generating new trade areas and clients have positive effects on performance.

Fig. 2-3-18 Recent trends in volume of sales, by type of business policy



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

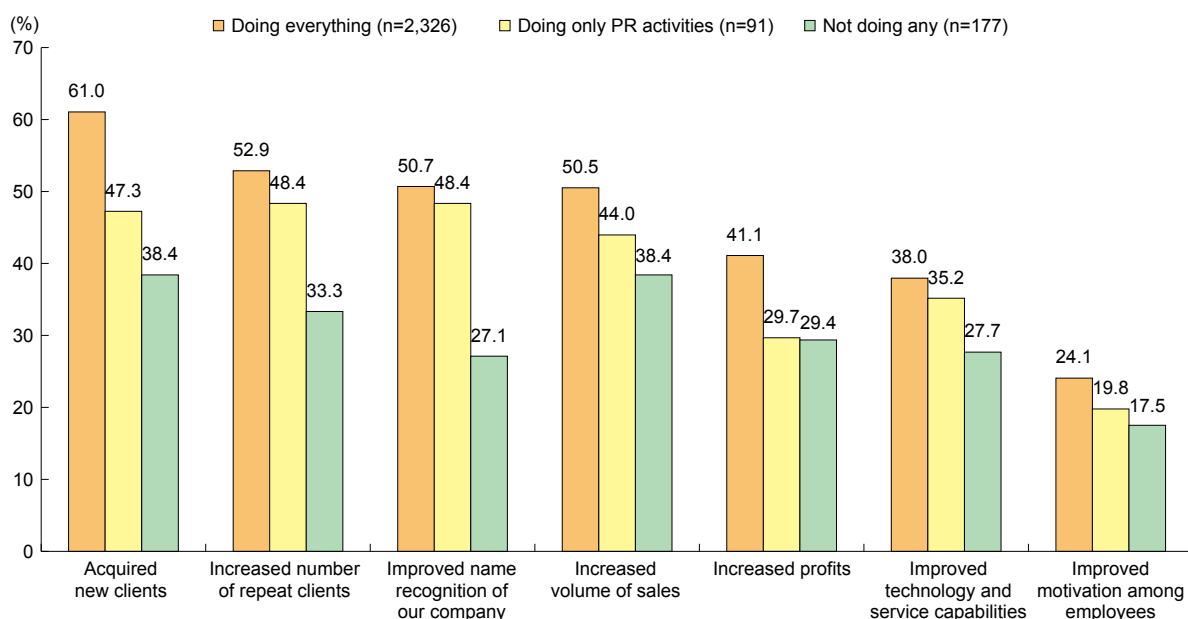
(2) Effects due to implementing a business policy

Next, let us examine the relationship between initiatives to increase sales and the effects produced by implementing a business policy. Fig. 2-3-19 shows the differences in the effects produced by implementing a business policy among (1) businesses implementing initiatives of all sorts aimed at increasing sales, (2) businesses carrying out only PR activities, and (3) businesses not carrying out any initiatives whatsoever to increase sales. By “(1) businesses implementing initiatives of all sorts aimed at increasing sales,” we mean businesses that are working to

grasp client needs, working to grasp their own strengths, and undertaking initiatives in the areas of PR activities and improving name recognition.

A glance the figure shows that on the whole businesses in the foregoing category (1) sense their initiatives are highly effective. In particular, when it comes to “Acquired new clients” and “Increased volume of sales,” there is considerable difference between those businesses that did undertake all three kinds of initiatives and those that did not.

Fig. 2-3-19 Effects of implementing business policies, by type of initiative to increase sales



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

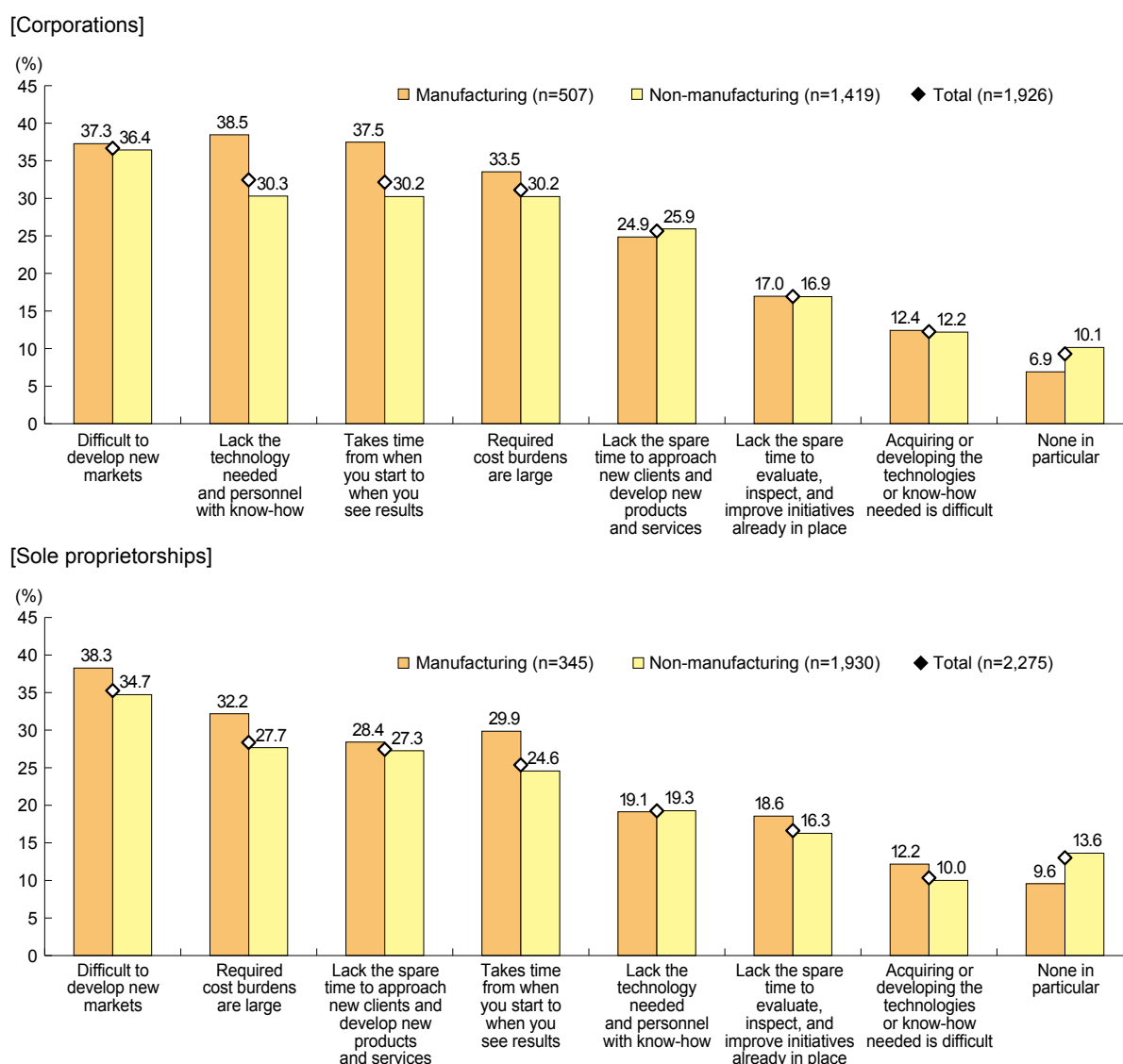
Note: Total does not always equal 100% as multiple responses were possible.

(3) Points emphasized in approaching new clients and developing new products and services

What are some of issues that arise when approaching new clients and developing new products and services? Fig. 2-3-20 presents these issues broken down by form of organization. As the figure shows, developing new markets and cost burdens are issues shared by all forms of organization. Aside from this, it can be seen that corporate

enterprises tend to see lack of human resources with know-how and the time it takes to see results as issues, while sole proprietorships bring up the lack of spare time and the time it takes to see results.

Fig. 2-3-20 Issues in approaching new clients and developing new products and services, by form of organization and industry type



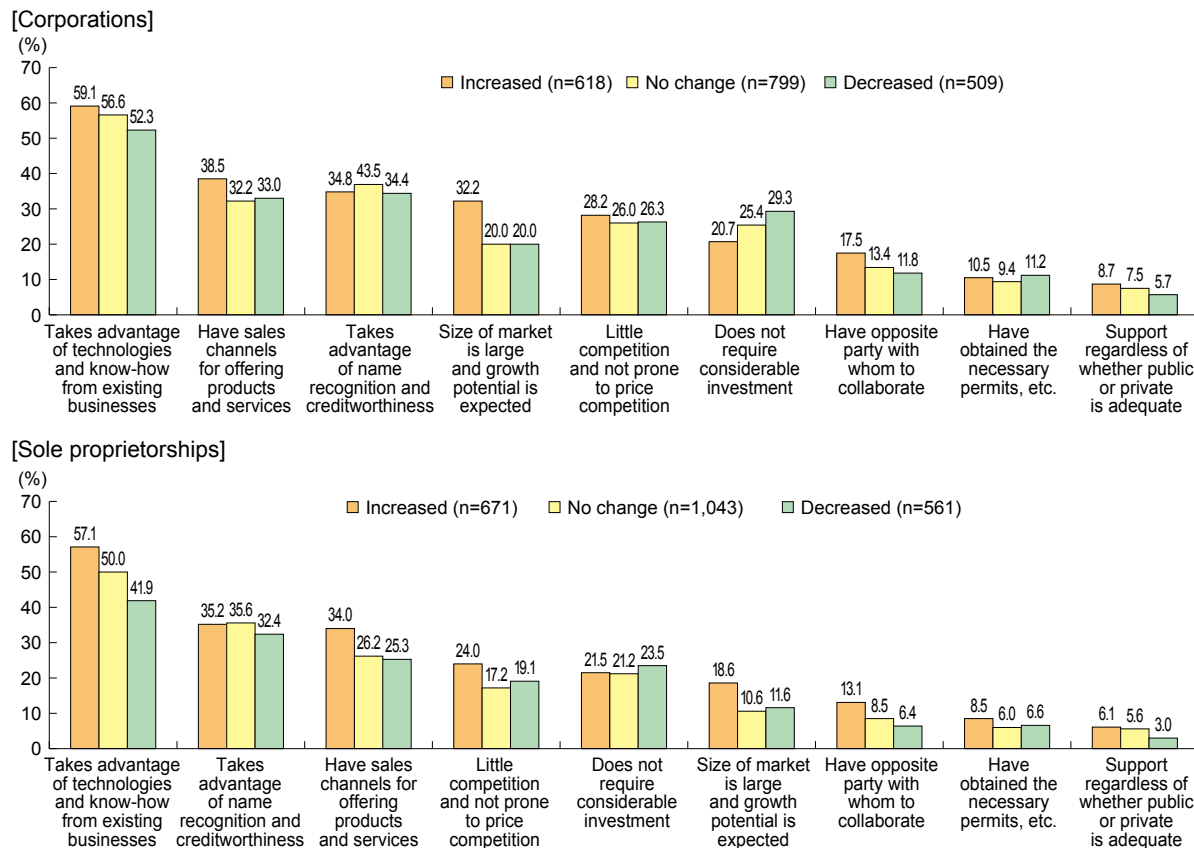
Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Finally, we look at what micro businesses stress when it comes to approaching new clients and developing new products and services. Fig. 2-3-21 shows that regardless of form of organization or trends in volume of sales micro businesses tend to stress “Takes advantage of technologies and know-how from existing businesses.” Looking at corporate enterprises specifically, the better

their performance the more likely they are to stress having sales channels for offering products and services and the size of a market and its growth potential. Among sole proprietorships, the better their performance the more likely they are to stress having few competitors in a market not prone to price competition along with having sales channels for offering products and services.

Fig. 2-3-21 Points emphasized in approaching new clients and developing new products and services, by form of organization and recent trends in volume of sales



Source: Nomura Research Institute, Ltd., *Survey Related to Initiatives toward Improving the Business Performance of Micro Businesses* (December 2016), commissioned by the SME Agency.

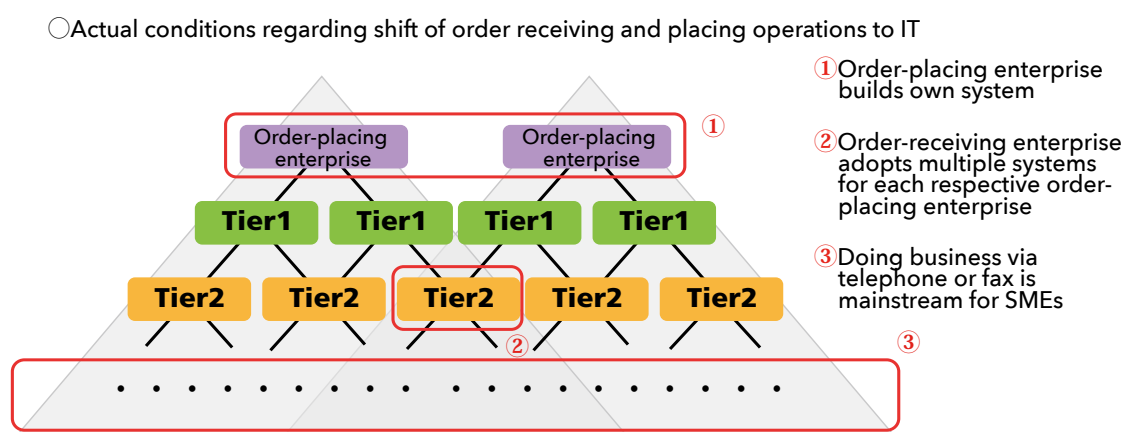
Note: Total does not always equal 100% as multiple responses were possible.

Column 2-3-3 Model project for data coordination transcending industry barriers

When it comes to coordinating data among enterprises that includes the work of receiving and placing orders, regardless of whether they do so by exchanging faxes and phone calls or—even if the process has been moved to data systems—they do so by building multiple independent data systems, the following issues will arise due to the absence of data coordination systems that transcend barriers in a given industry.

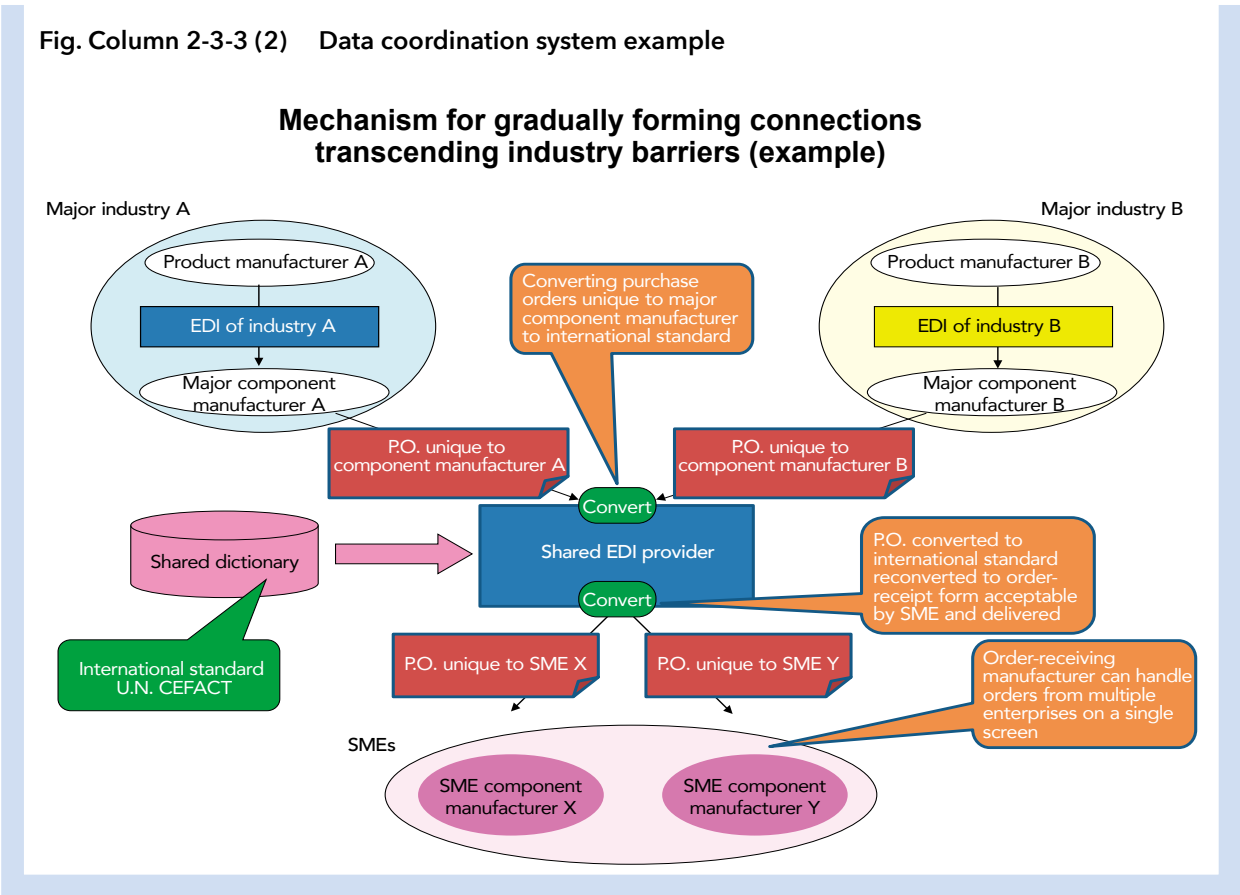
- (1) Problem of time and effort involved given need to use multiple screens (multiple systems) owing to systems being different at business partner site.
- (2) Problem of needing new system investments to deal with changes in transaction type.
- (3) Problem as a result of (1) and (2) of past ordering information being scattered, data not being collected, and an inability to make use of the “big data” concerned for management purposes owing to the need in, for example, order-related tasks to create manual links among information about production management systems, fund transfers to bank account, and ordering information owing to inability to coordinate with other systems.

Fig. Column 2-3-3 (1) Problems arising from absence of data coordination systems



It is anticipated that solving these sorts of problems will boost SME productivity to a considerable degree. The Committee on Data Coordination Transcending Industry Barriers was created with the objective of setting up data coordination systems that transcend barriers within an industry including in between ordering operations between enterprises and boosting productivity further at SMEs. The Committee has also implemented a model project to survey and test system coordination in order to confirm that a new service model can be created with data coordination systems at its foundation that transcend those barriers. The details are presented at the Committee page of IT Coordinators Association website <<https://www.itc.or.jp/datarenkei/>>.

Fig. Column 2-3-3 (2) Data coordination system example



Column 2-3-4 Strategic core technology advancement and partnership support program

In order to stir the creation of innovation among SMEs that provide the backbone for regional economies, the government provides support for (1) R&D, prototype development, and market-opening initiatives (through the Strategic Core Technology Advancement Program) undertaken by businesses with plans certified under the SME Technological Advancement Law that partner with research institutions such as universities or public test and research institutes; and (2) work done to develop services and the like (through the Partnership Support Program to Improve Competitiveness of Businesses and Services) undertaken by businesses with a certified "cross-field partnership new business development plan" under the SME Management Enhancement Support Act in accordance with the "Guidelines to Improve Productivity at Service Industry SMEs."

Strategic core technology advancement program

The Program supports R&D, prototype development, and market-opening initiatives undertaken by businesses with plans certified under the SME Technological Advancement Law that partner with research institutions such as universities or public test and research institutes.

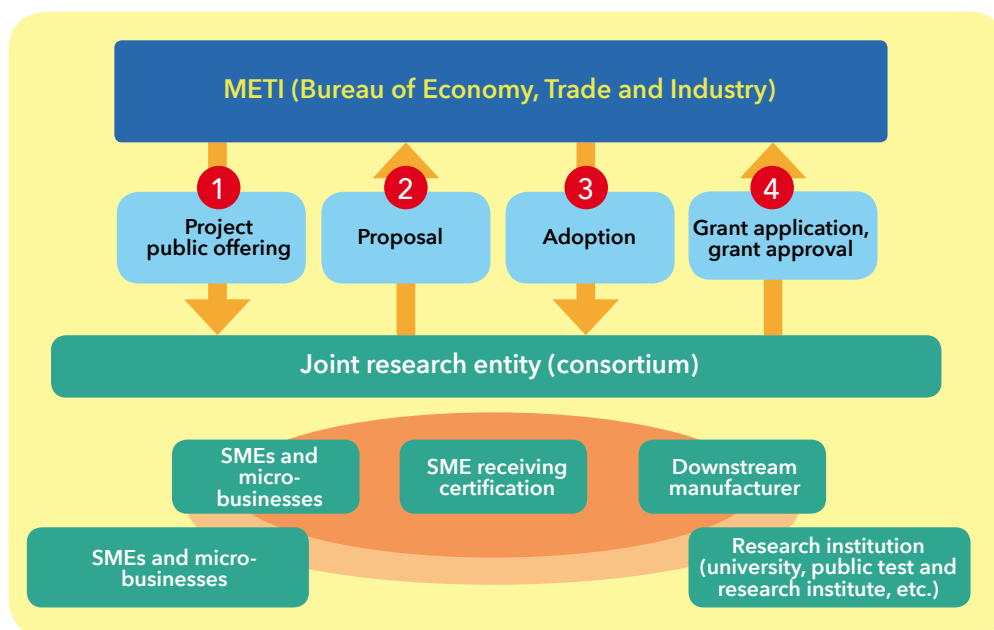
Eligible Parties	SMEs engaged in R&D aimed at increasing the sophistication of specific core manufacturing technologies ¹¹⁾ , collectives that include parties who have been certified by the Economy, Trade, and Industry Minister
Support Details	<p>With the goals of strengthening the international competitiveness of the country's manufacturing industry and of creating new business, the government provides integrated support for R&D and market-opening initiatives by SMEs that are conducive to increasing the sophistication of specific core manufacturing technologies (12 technologies, including high-precision processing and three-dimensional molding). Applicants must create a R&D plan (Specific R&D Plan¹²⁾ in accordance with the Guidelines for Advancement of Specific Manufacturing Core Technologies.¹³⁾</p> <ul style="list-style-type: none"> Grant amount: ¥45 million or less for first year per theme Of this, total for first year of ¥15 million or less for universities or public test and research institutes Second year funding equivalent to 2/3 amount delivered in first year, third year maximum of up to 1/2 Subsidy rate: 2/3 or less for SMEs and micro-businesses Program period: 2 to 3 years

11) Technologies in the following 12 areas are regarded as "specific core manufacturing technologies" (revised February 9, 2015): (1) design development, (2) information processing, (3) high-precision processing, (4) manufacturing environment, (5) joining and mounting, (6) three-dimensional molding, (7) surface processing, (8) machine control, (9) compounding and neo-functional materials, (10) material manufacturing processes, (11) bio-related, and (12) measures and gauges.

12) The "Specific R&D Plan" is the plan connected to research and development into specific core manufacturing technologies and the use of the results of that R&D.

13) The Guidelines for Advancement of Specific Manufacturing Core Technologies serve and function as guidelines for promoting increased sophistication of the manufacturing technologies of SMEs and micro-businesses with regard to each of the specific core manufacturing technologies. For details, please see the SME Agency website. <<http://www.chusho.meti.go.jp/keiei/sapoin/shishin.html>>

Fig. Column 2-3-4 (1) Eligible parties for strategic core technology advancement program



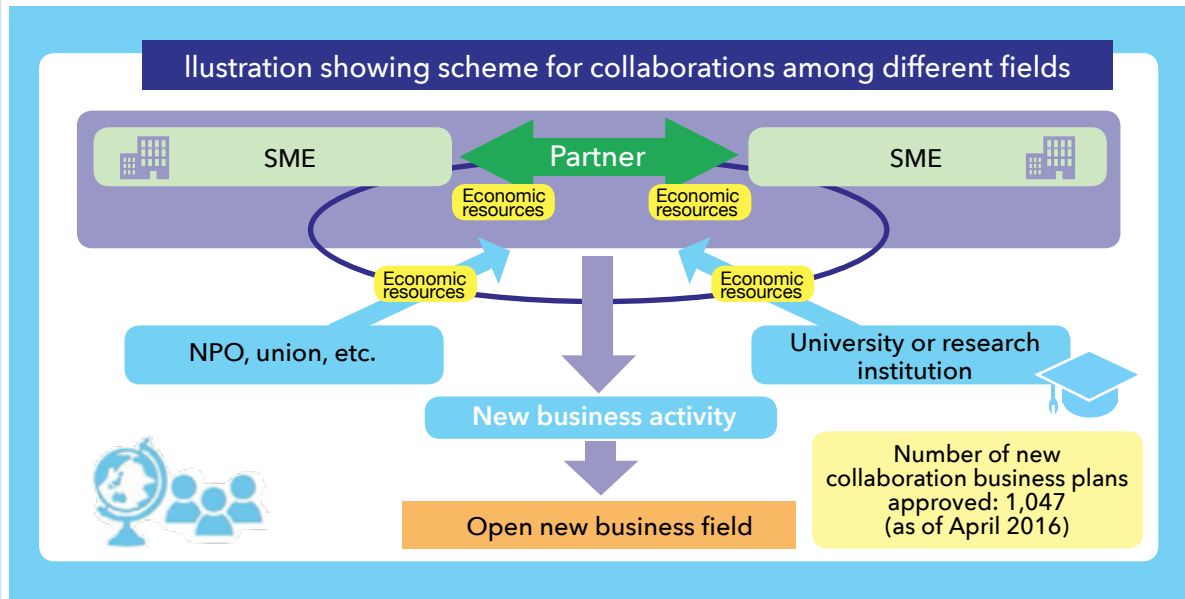
Partnership support program to improve competitiveness of businesses and services

This program supports initiatives related to the development of new service models carried out in collaboration by SMEs from different fields.

Eligible parties	<p>SMEs engaged in developing new service models that satisfy the following conditions.</p> <ol style="list-style-type: none"> 1) An initiative that has been certified as a “Cross-field partnership new business development plan (new partnership)”¹⁴⁾ based on the SME Management Enhancement Support Act 2) An initiative that will result in industry-academic-government partnering 3) An initiative in accordance with the “Guidelines to Improve Productivity at Service Industry SMEs”
Support details	<p>Subsidizes the expenses (machine equipment expenses, labor costs, market research costs, etc.) related to the development of a new services model.</p> <ul style="list-style-type: none"> • Subsidy amount: ¥30 million or less in first year • Subsidy rate: 2/3 or less • Program period: 2 years <p>(Second year subsidized up to a maximum of the amount of the grant decided on for the first year)</p>

14) A “Cross-field Partnership New Business Development Plan (New Partnership)” refers to the plan certification system based on the SME Management Enhancement Support Act. The system requires that the plan aim at launching a new business field by two or more SMEs in different fields partnering by effectively combining their respective “strengths” to develop new goods and services.

Fig. Column 2-3-4 (2) Illustration of collaborations among different fields



Column 2-3-5 Small Business Sustainability Subsidies

Sustainable business development among small businesses is the guiding principle of the Basic Act for Promoting Small Businesses. In tandem with the establishment of this act, small business sustainability subsidies have been incorporated into budgetary measures in order to support sustainable business development through the cultivation of new markets by small businesses. This section provides an overview of these small business sustainability subsidies.

Business overview (second supplementary budget of FY2016)

This program helps offset costs incurred by small businesses cultivating new markets. This includes the cost of remodeling and renovating stores and creating flyers and catalogs. Applications require attaching a business plan, and small businesses are encouraged to do business based on that plan. Along with increasing the maximum subsidy level for businesses that raise wages for their employees, the second supplementary budget project of FY2016 places a greater emphasis on assisting businesses that use IT in their operations.

Fig. Column 2-3-5 (1) Overview of small business sustainability subsidies

	General	Kumamoto Earthquake recovery	Typhoon catastrophe recovery
Targeted organizations	Small businesses	Small businesses that were affected by the 2016 Kumamoto Earthquake and that are located in any part of Kumamoto Prefecture and certain parts of Oita Prefecture (Beppu, Hita, Takeda, Usa (only the former Innai and Ajimu), Yufu, Kokonoe, and Kusu)	Small businesses located in Minamifurano in Hokkaido's Sorachi District, or Miyako, Kuji, or Iwaizumi (Shimohei District) in Iwate Prefecture and affected by typhoon numbers 7, 11, 9, or 10
Maximum subsidies	¥500,000, ¥1 million (for wage increases, hiring more workers, expanding overseas, and assisting those unable to go shopping), ¥50 million (for joint enterprises participated in by multiple businesses)	¥2 million, ¥20 million (for joint enterprises participated in by multiple businesses)	¥1 million, ¥10 million (for joint enterprises participated in by multiple businesses)
Subsidy rates	2/3		
Eligible costs	Costs involved in attempting new market cultivation in line with business plans created by small businesses based on advice from societies and chambers of commerce and industry		

Effect of subsidies

A follow-up survey was conducted among businesses making use of this subsidy under the FY2014 supplementary budget (November–December, 2016 survey period: 32,963 subsidy-receiving businesses under the FY2014 supplementary budget; 19,351 respondents).

Fig. Column 2-3-5 (2) shows the results of the survey. 97.5% of subsidy users stated that either they had “obtained new business partners and clients (increase in no. of customers)” or “expect to obtain new business partners and clients (increase in no. of customers).”

In addition, as shown in Fig. Column 2-3-5 (3), 96.0% of subsidy users said that either “sales increased” or “expect sales to increase.”

Fig. Column 2-3-5 (2)

Effect of subsidy usage on acquiring business partners and clients

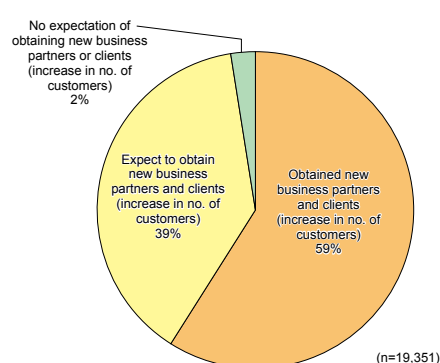
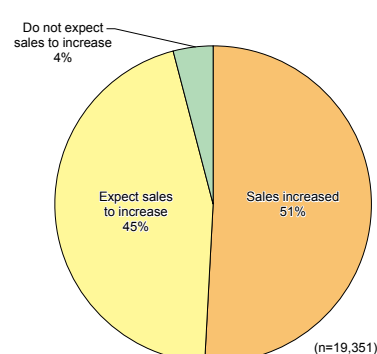


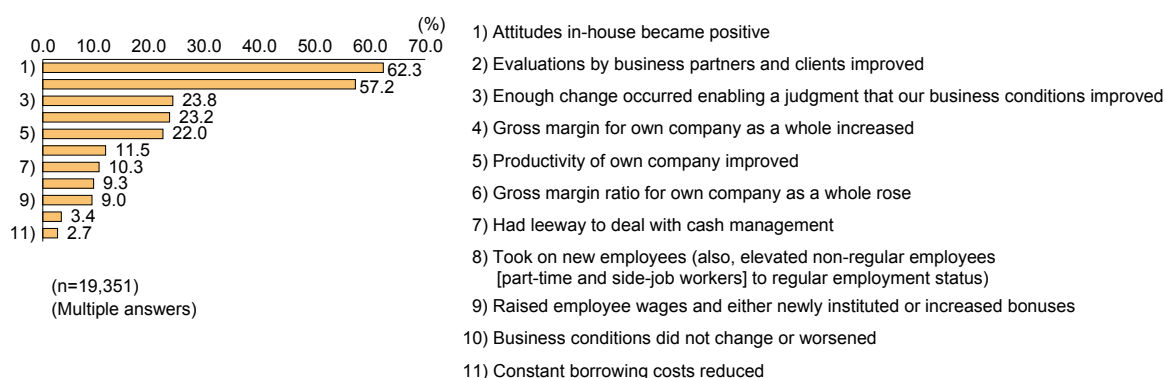
Fig. Column 2-3-5 (3)

Effect of subsidy usage on sales



Furthermore, regarding changes that occurred following the end of the subsidy program, more than half of respondents said that either “attitudes in-house became positive” or “evaluations by business partners and clients improved,” while over 20% said either “enough change occurred enabling a judgment that our business conditions improved,” “gross margin for own company as a whole increased,” or “productivity of own company improved.”

Fig. Column 2-3-5 (4) Business environment changes after subsidy program end



While all of these effects cannot be attributed to the subsidies, it is clear that efforts to cultivate new markets using the subsidy program are contributing to positive business growth cycles.

Subsidy beneficiary case study (1) – Kappo Hisago (Shirataka City, Yamagata Prefecture)

[Company profile]

Established in 1981. Provides lunchboxes and catering for lunches, banquets, and other conferencing events.

[Improvements made]

In response to requests for more low tables and chairs for seniors, the company purchased two more low tables and 12 chairs and increased seating from 22 to 34 seats, allowing the restaurant to accommodate even groups of 30 or more people. It also resurfaced its tatami mats and put in new fusuma and shoji doors. These efforts have created a fresh and relaxed environment, improved customer satisfaction, and increased the number of repeat customers.

[Results]

After renovating the store and using newsletters and other means to inform customers of the renovation, customers have formed a better impression of us and even our regular customers have praised the new atmosphere as being relaxing. They have also enhanced their lunch menu with seasonal flavors, one further factor that contributed to achieving a 60% increase in customers for lunchtime group dining. Sales increased 12% year on year as a result of more group patronage and repeat customers bringing friends.



Subsidy beneficiary case study (2)**– Fukuji no Sakamoto Co., Ltd. (Miyazaki City, Miyazaki Prefecture)****[Company profile]**

Established in 1940, incorporated in 1970. A long-standing local store with 75 years of history, the company sells made-to-order womenswear, retail womenswear and fabric, and the company's own original products. It also conducts sewing classes for its regular customers and others.

[Improvements made]

The company did PR that capitalized on the store's being conveniently located in downtown Miyazaki in order to get more young customers in their 20s and 30s, a demographic interested in learning how to use sewing machines.

Using its window shutters as an advertising medium, the store advertised—even on holidays and at night—"3-hour Sewing Classes" to pedestrians and those passing by in buses and cars on the nearby highway. The store also targeted middle-aged and older customers specifically, handing out flyers to mainly purchasers of fabric.

[Results]

Previously, between 30 and 40 customers a week on average picked up in-store flyers for the 3-hour sewing class. This number grew to 64, however, after the store put up its shutter advertisements. Customers have also remarked on the improvements with comments such as "it's now easier to see the inside of the store from the outside." Before the program, an average of 2.7 new participants joined the sewing classes every month, which is 18.6% of all participants. After the project, however, this number grew to 5.7 or 40.1% (up 21.5%) of all participants, doubling the number of new participants.



Case 2-3-5 Sakura Garden Co., Ltd.

A company that has won the trust of its customers through high quality and on-time delivery and has successfully expanded into new business areas, and which is continuing to work for the recovery of the Futaba region from the effects of the Great East Japan Earthquake

Sakura Garden Co., Ltd. (employees: 7; capital: ¥3 million), located in Tamura City, Fukushima Prefecture, cultivates and sells ornamental plants in addition to machining undercarriage parts for construction equipment, such as rollers employed for heavy machinery. The company was affected by the Great East Japan Earthquake disaster occurring in March 2011, but restarted its parts machining business around five months later, and increased its sales to above pre-earthquake levels.

Sakura Garden was established in the town of Tomioka in Fukushima Prefecture in 2002 by its Representative Director, Norio Endo, to cultivate and sell ornamental plants. The ornamental plant business is highly seasonal, and it is difficult to ensure stable profits. Seeking a business that was not affected by factors such as the weather, in 2005 Mr. Endo started a business machining parts for construction equipment. Mr. Endo was able to advance into this area because his experience with design blueprints in his previous position with a civil engineering-related company enabled him to also draw up design blueprints for metal parts.

After developing his new business, Mr. Endo cultivated sales channels through connections, and steadily built relationships of trust with clients. He recalls that "At first, people would have me make one or two products just for the sake of the acquaintanceship, but when they saw the level of quality and recognized that I was careful about on-time delivery, the scope of the products people ordered steadily increased." Mr. Endo has focused considerable ingenuity on ensuring a high level of quality. He specially machines holding pins to stabilize the parts when they are set in the machining tools to ensure that they do not slip during machining. This technique has won praise from clients when they have visited the workshop. In addition, following machining, employees measure the outer and inner circumferences of the parts and verify that they are finished according to the design and have no defects. When this has been done, the parts pass to a staff member responsible for quality control who conducts the measurements again, and Mr. Endo himself conducts spot inspections. As a result of this close focus on quality control, the company has not delivered a single defective item in the most recent two years.

As a result of the accident at the Fukushima Daiichi Nuclear Power Plant following the Great East Japan Earthquake in March 2011, Tomioka, where Mr. Endo's workshop was located, was designated an exclusion zone. Two days following the disaster, Mr. Endo relocated to Chiba. "Even though I'd experienced a disaster, I couldn't just sit around. It's precisely at times like that you have to get up and start working," he says, looking back on the time. Several days after the disaster, Mr. Endo applied for work with earthquake recovery efforts, and from April he was overseeing a site. Five months on from the disaster, due to requests from clients, he relocated his workshop to Tamura City, and restarted his metal parts machining business, but not the ornamental plant business.

For several years after relocating and restarting the business, it was difficult for Mr. Endo to secure personnel. "The employees who worked for me in Tomioka before the disaster had been dispersed by evacuation. I had to look for employees from scratch, but just after the disaster, few human resources were coming to Fukushima," he says. For some time following the disaster Mr. Endo received introductions to job seekers from the Hello Work job-finding support service, and two of the current employees of the Tamura workshop are the first job seekers he employed following the disaster. As candidates to become future directors of the company, these employees are involved in quality and process management. Looking towards his retirement, Mr. Endo is working to foster the next generation of management personnel to ensure that the workshop functions without a problem even if he is not there. Recently, he has also made use of support for finding staff members provided by the Fukushima Soso Reconstruction Team. Now seeing a response to his quest for employees, Mr. Endo says, "The support provided by the team has enabled me to secure work-ready and motivated technicians."

Mr. Endo's company is now cooperating with other companies, looking towards realizing business growth. Participating in the Fukushima International Research-Industry City Initiative (Innovation Coast), Mr. Endo is seeking to connect with companies which could become new business partners and technicians possessing technical expertise and knowhow. He also has his sights set on advancing into the area of machining valves used in nuclear reconstruction work and parts for medical equipment in addition to his work related to heavy machinery if Tomioka's designation as an exclusion zone is ever lifted. This goal is born from his desire to contribute to the recovery of the Futaba region by deploying his company's technical prowess in business in Tomioka. He says, "Tomioka is the central town in the Futaba region. There will be no recovery unless Tomioka leads it. If it is possible to return to Tomioka, then I want to go back and restart my business. Of course we won't be able to make everything the way it was before the disaster, but I hope that companies that can return to Tomioka do return, and the town recovers little by little."



Mr. Endo and the staff member responsible for quality control conducting a double check

Case 2-3-6 Next Creation Co., Ltd.

A company that has sought to transform itself from an old, locally loved mochi store to a mochi manufacturer that challenges itself to create new businesses while maintaining connections with its regional community

Next Creation Co., Ltd. (employees: 3; capital: ¥1 million), located in Kita-Kyushu City, Fukuoka Prefecture, manufactures and markets products made from select ingredients using traditional methods as part of a mochi store (trading name: Takaishi Foods) which has been in existence for more than 100 years. 40% of the mochi store's sales were to local people, and its proprietor recognized the need to open up new markets against the background of changing culinary trends among young people and a decline in the number of people eating mochi on a daily basis. Considering that the involvement of a non-Japanese staff member with the old Kita-Kyushu mochi store could generate new concepts and help to open up new markets, the store applied to the Ministry of Economy, Trade and Industry's Japan Internship Program via the SME support portal site Mirasapo, and soon accepted its first overseas intern.

The new intern became involved in processes ranging from mochi making to marketing, new product development and packaging design, ultimately coming up with the idea of making mochi using cinnamon, which is said to be good for the health, an idea that became an actual product.

The effect of accepting the overseas intern was greater than the store had expected. The intern's zeal to learn from Japan and her bright personality, in addition to the talking point represented by going to Takaishi Foods and trying cinnamon mochi invented by a foreigner, increased the number of customers visiting the store, and resulted in exchanges with the local community. In addition, the new cinnamon mochi was taken up by the media, and the store now received visits from male customers and customers attracted by word of mouth, who had never previously visited. As a result, the store increased its sales by 250% against the previous year, and saw prospects for a new business. The initiative also served excellent employment advertising, with the intern's talks at local Fukuoka University leading, for example, to students wishing to work for the store.

While the store's overseas intern did not speak a word of Japanese, she built solid relationships of trust in the region with communication beyond words, for example by giving local residents hand-made sticky rice with red beans and a card expressing birthday wishes in her native language on their birthdays, and helping out at local festivals.

The influence of the proposal of cinnamon mochi by the store's overseas intern and active urging by management have led to a change in awareness throughout the organization, with the store's existing employees changing their stance to one of seeking to cultivate new customers.

Having up to the present continued in business as a mochi store loved by its regional community, it was felt that the acceptance by the store of the overseas intern provided the opportunity to make the transformation to becoming a mochi manufacturer that takes up the challenge of creating new businesses while maintaining its connections with its regional community, and the company is currently conducting market surveys, looking towards advancing overseas in three years. The store's proprietor believes that in order to do so, efforts to reform the company's structure and promote internal internationalization will be necessary. As concrete measures towards this goal, in addition to creating opportunities for employees to learn foreign languages and study foreign cultures, the company is looking at employing staff who have an interest in overseas business and cultural exchanges. The aim is to develop businesses that are based on the appeal of traditional Japanese culture, while realizing a mutual respect for both Japanese and other cultural backgrounds.



Next Creation's Representative Director, Takahiro Kiyofuji



Experiencing making mochi

Case

2-3-7

Mikawa Genki Monogatari Co., Ltd.

A company that succeeded in communicating the appeal of its local region from an outsider's perspective to an overseas audience and stimulating demand from overseas tourists by taking on an overseas intern

Mikawa Genki Monogatari Co., Ltd. (employees: 3; capital: ¥500,000), located in Shinshiro City, Aichi Prefecture, is involved in areas including management consulting, regional revitalization business, and "sextiary industry" production.

The company is placing a particular focus on a business seeking to stimulate demand among overseas visitors to Japan, and is working in this area in collaboration with its local region. The company is targeting tourists from Southeast Asia, and in order to gain an understanding of their needs, it used the SME support portal site Mirasapo and the Ministry of Economy, Trade and Industry's Japan Internship Program (which it learned about from a JETRO email magazine) to take on an intern from Malaysia.

Believing that it was first necessary to communicate information regarding Shinshiro City as a tourist destination overseas, Japanese staff members and the Malaysian intern actually visited tourist areas, and, using an overseas visitor's fresh perspective, created SNS pages and a webpage to communicate information to an overseas audience, and formulated plans for package tours for overseas tourists. The work of the company's Malaysian intern assisted the Japanese staff members in learning about English expression and about Japan as seen from the perspective of an overseas visitor. The intern also shared information regarding subjects including halal restrictions and marketing methods suited to Malaysia at company meetings. Following this, the company created package products offering consultation regarding responses to halal restrictions, and began marketing them to local hotels and restaurants.

In addition, in cooperation with the local government and related bodies, the company organized talks by its intern regarding halal culture for local people, to enhance preparation and understanding looking towards the acceptance of overseas tourists. The company's intern also gave talks to local high school students, some of whom indicated a desire to work overseas, thus aiding the fostering of global human resources in the region.

Before the company's acceptance of a Malaysian intern, it had little understanding and experience of halal culture, and the experience has deepened understanding and acceptance of other cultures within the company.

The Malaysian intern has now returned home, but based on the knowledge it gained from the initiative, the company is now involved in the operation of short-term accommodation services that will also be able to be suitable for Muslim tourists. In addition, the company is considering the development of new initiatives targeting overseas tourists, consulting packages, and international training services using its network of companies that handle halal products.



At a Shinshiro City hot spring promotion meeting



Exchanging information concerning responses to halal restrictions with the municipal administration

Section 3 Preparing the workplace environment and making use of varied human resources

In the present section, we will look at the measures that micro businesses are undertaking to address the issue of securing human resources that many raised in Section 2. Between the declining birthrate and demographic aging on the one hand and insufficiencies in the labor force on the other, micro businesses are facing with increasingly worsening labor shortages. Micro businesses are supports for local economies, and for such enterprises to sustain themselves it is crucial that they make the most of their advantages as small enterprises to hire and retain human resources as well as make the most of diverse management resources. Additionally, in those instances where they are unable to secure the human resources needed or are faced with issues difficult to address on their own, making the

most of outside management resources—that is to say, making skillful use of outsourcing—is also an effective approach. In the present section, we will analyze the situation regarding securing human resources and making use of varied human resources. Additionally, we will also take up using outsourcing as a means for addressing insufficiencies in human resources. Even with the current general scarcity of human resources, there are micro businesses that are making up for these inadequacies by making use of outsourcing to grow. In the present section, we will analyze the measures being undertaken aside from securing human resources to address this scarcity and give some thought to how micro businesses might grow in the future.

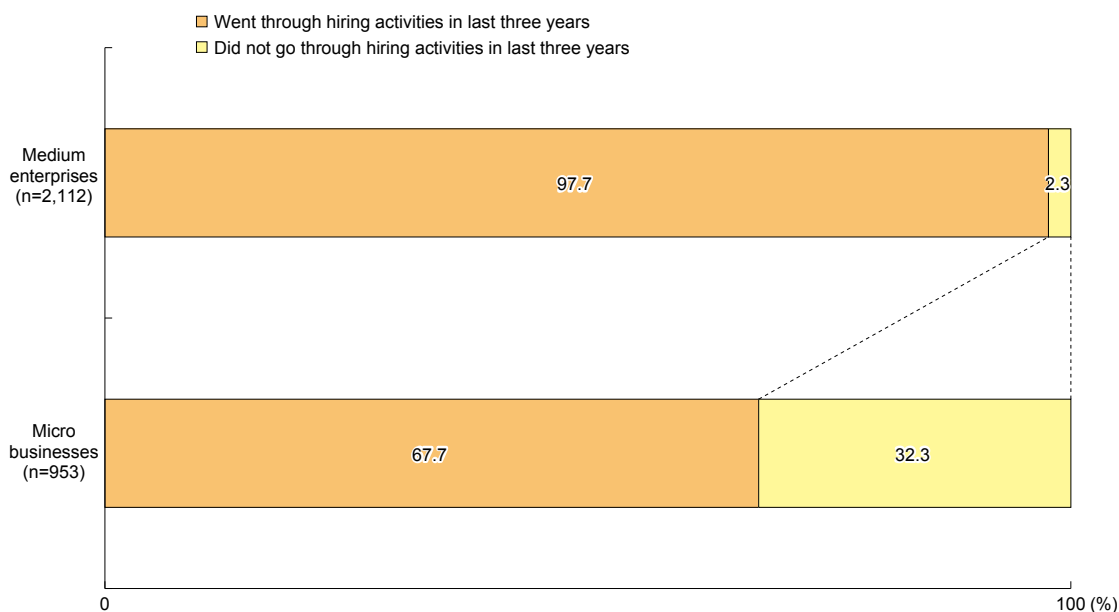
1. Initiatives toward securing human resources

(1) Hiring activities and retention

First, we will look at the hiring activities that micro businesses are undertaking. Fig. 2-3-22 shows that while in the last three years 97.7% of medium enterprises have

been hiring, the percentage stands at 67.7% for micro businesses. This indicates they are not engaging regularly in hiring.

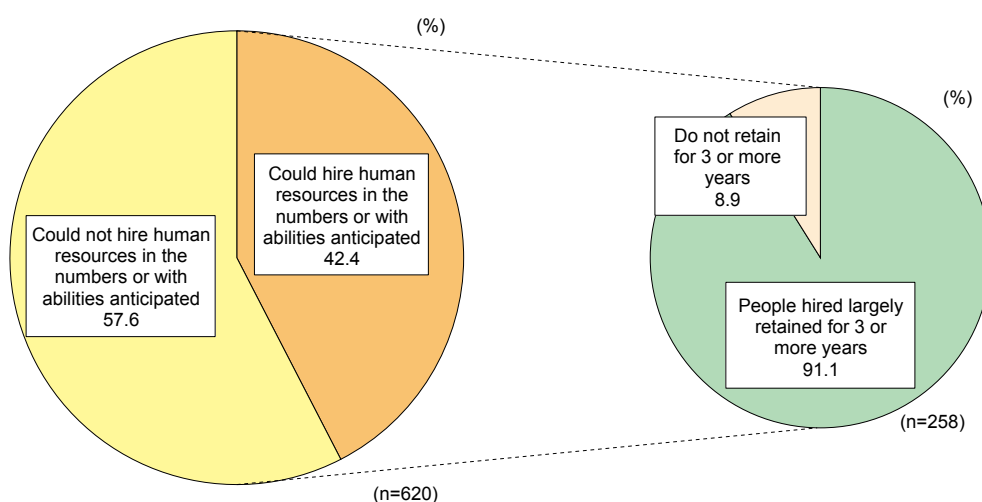
Fig. 2-3-22 Hiring activities undertaken in the last three years



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Next, we turn to Fig. 2-3-23 to see whether the personnel being hired represent the quantity and quality of human resources anticipated and whether or not they are being retained. First, 42.4% of enterprises say the people they hired comprise the kind of human resources they expected in terms of quality and quantity. Looking next at whether these people are being retained, the figure shows

that some 90% of enterprises say these human resources have stayed with them for three or more years. As noted in Fig. 2-3-22, more than 60% of micro businesses went through hiring. Of those, roughly 40% said they obtained the human resources they expected. Also, their retention rates were high.

Fig. 2-3-23 Results of hiring efforts and retention of human resources hired

Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

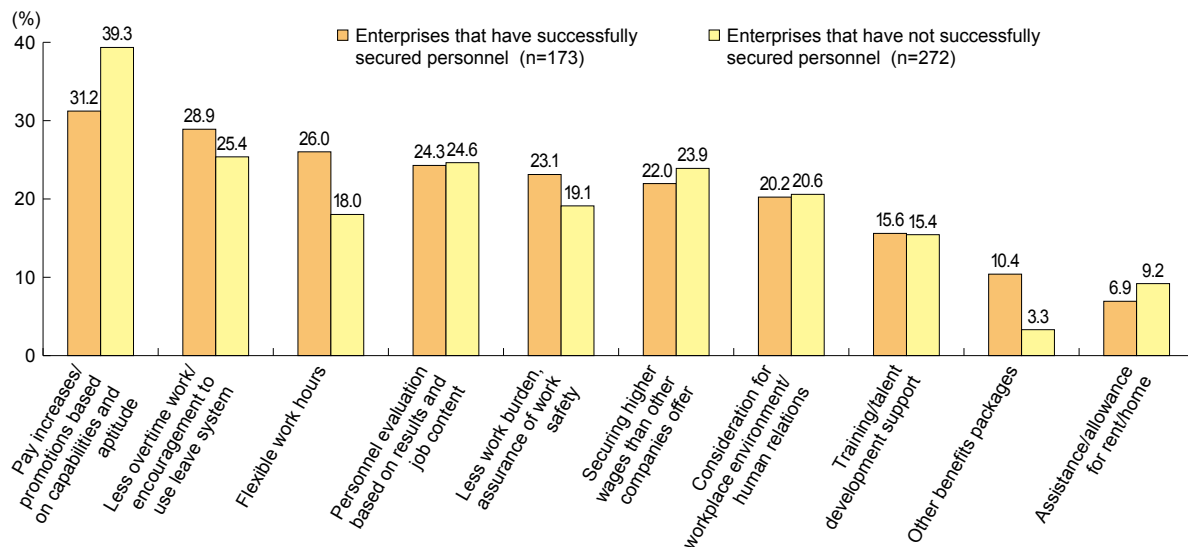
Notes: 1. Aggregates enterprises only that had conducted hiring activities in the past three years.
2. Aggregates results for small businesses only.

(2) Initiatives to encourage retention

As Fig. 2-3-23 shows, micro businesses tend to have comparatively high retention rates once they succeed in hiring somebody. What sorts of initiatives did these enterprises that succeeded in securing human resources undertake? Fig. 2-3-24 presents the kinds of initiatives that were considered effective for retaining human resources, broken down by whether an enterprise successfully secured those resources or not. It shows that, regardless of success or failure, “Pay increases/promotions based on capabilities and aptitude” received the greatest percentage of responses. On the other hand,

a gap does open up between enterprises successful at securing human resources and enterprises not successful at securing human resources¹⁵⁾ as seen with respect to such initiatives as “Less overtime work/encouragement to use leave system” and “Flexible work hours.” This suggests that bringing flexibility to working arrangements is an effective initiative when it comes to retaining the human resources secured.

15) “Enterprises successful at securing human resources” are regarded as “enterprises that could hire human resources in the numbers and with the abilities anticipated, and also retained the people hired largely for 3 or more years.” “Enterprises not successful at securing human resources” are regarded as “enterprises that could hire human resources in the numbers and with the abilities anticipated, but did not retain the people for 3 or more years” as well as “enterprises that could not hire human resources in the numbers and with the abilities anticipated.”

Fig. 2-3-24 Initiatives for considering effectiveness regarding retaining human resources, by results in securing human resources

Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

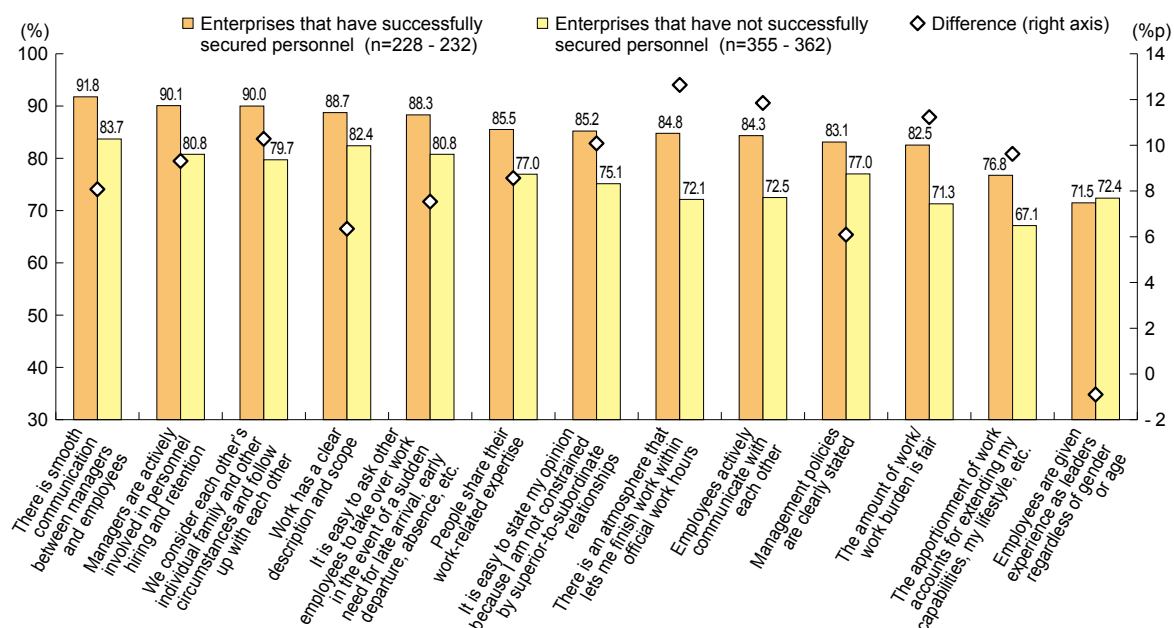
Notes: 1. Total does not always equal 100% as multiple responses were possible.

2. Aggregates results for small businesses only.

3. "Enterprises successful at securing human resources" are regarded as "enterprises that could hire human resources in the numbers and with the abilities anticipated, and also retained the people hired largely for 3 or more years." "Enterprises not successful at securing human resources" are regarded as "enterprises that could hire human resources in the numbers and with the abilities anticipated, but did not retain the people for 3 or more years" as well as "enterprises that could not hire human resources in the numbers and with the abilities anticipated."

Next, Fig. 2-3-25 presents the differences in workplace environment and manager behavior, broken down by whether an enterprise was successful in securing human resources or not. The figure shows that differences arose between successful and unsuccessful enterprises in the areas of "There is an atmosphere that lets me finish work within official work hours," "Employees actively

communicate with each other," and "The amount of work/work burden is fair." This illustrates that one characteristic of micro businesses that were successful in securing human resources is that they give consideration to the working hours and duties they order and maintain good relations among their employees.

Fig. 2-3-25 Manager behavior and workplace environment, by whether the small businesses had success securing personnel or not

Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Notes: 1. Aggregates the total of those responding, "very much applies" or "somewhat applies."

2. Aggregates results for small businesses only.

3. "Enterprises successful at securing human resources" are regarded as "enterprises that could hire human resources in the numbers and with the abilities anticipated, and also retained the people hired largely for 3 or more years." "Enterprises not successful at securing human resources" are regarded as "enterprises that could hire human resources in the numbers and with the abilities anticipated, but did not retain the people for 3 or more years" as well as "enterprises that could not hire human resources in the numbers and with the abilities anticipated."

2. Making use of varied human resources

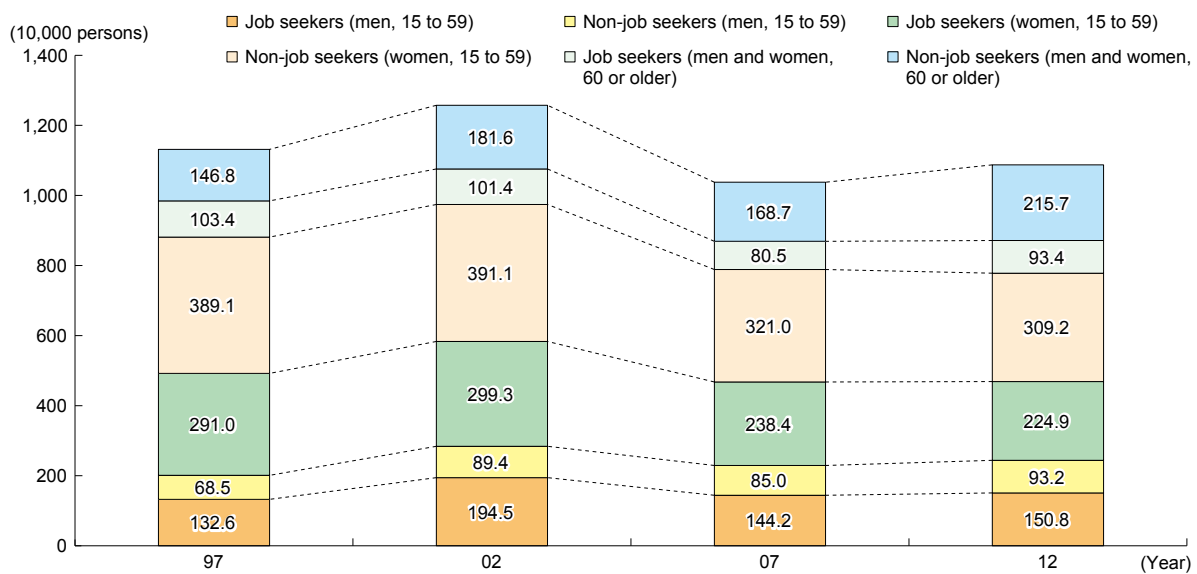
(1) Number of persons without an occupation who wish to be employed

Under the previous subsection, we took up initiatives related to retaining human resources. In subsection 2, we now want to take up making use of varied human resources. This point will be discussed in greater detail later, but for micro businesses women and seniors¹⁶⁾ play essential roles in their business activities. As the sense of scarcity in human resources grows ever stronger, micro businesses need to create environments that can enable women and seniors to make greater contributions to their business activities. With this thinking in mind, we will first examine how many persons without an occupation

who wish to be employed¹⁷⁾ are women or seniors. Fig. 2-3-26 presents trends in the number of people not engaged in work who are seeking employment. It shows that as of 2012 there were more than 10 million men and women combined who were seeking employment but non-employed. Of these non-job candidates who wanted work but were not yet participating in the workforce approximately 3.09 million were women between 15 and 59 and another 2.16 million were men and women over the age of 60.

16) In the present section, "senior" will refer to human resources aged 60 or older.

17) Here, "persons without an occupation who wish to be employed" are defined as "persons without an occupation who want to do paying work," regardless of such factors as whether they are actually seeking jobs. As such, this differs from the definition of "completely unemployed persons" in labor force surveys.

Fig. 2-3-26 Trends in number of persons without an occupation who wish to be employed

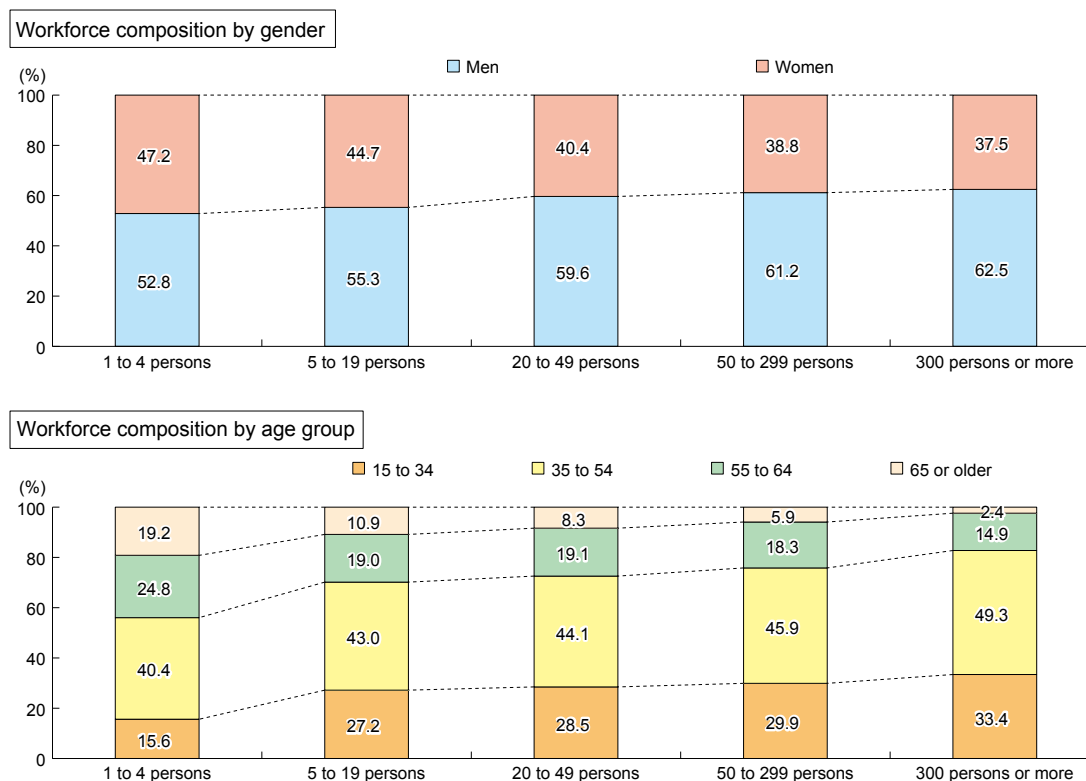
Source: MIC, *Basic Survey on Employment Structure*.

Note: "Job seekers" means "persons without an occupation who want to do paying work and are looking for work or preparing to start a business." "Non-job seekers" means "persons without an occupation who want to do paying work but are not looking for work and not preparing to start a business."

(2) Composition of workforce

Next, we will look at the ratio of men and women among persons in employment, broken down by numbers of employees. Fig. 2-3-27 shows that women account for 47.2% of the workforce at enterprises with one to four employees. Also, if we look at the percentages of various

age groups among persons in employment broken down by the numbers of employees, we see that enterprises with one to four employees have a greater proportion personnel in their employ in the 55 to 64 and 65 or greater age groups than enterprises of other sizes.

Fig. 2-3-27 Gender and age group composition of workforces, by numbers of employees

Source: MIC, 2012 Basic Survey on Employment Structure.

Notes: 1. Aggregates "employees."

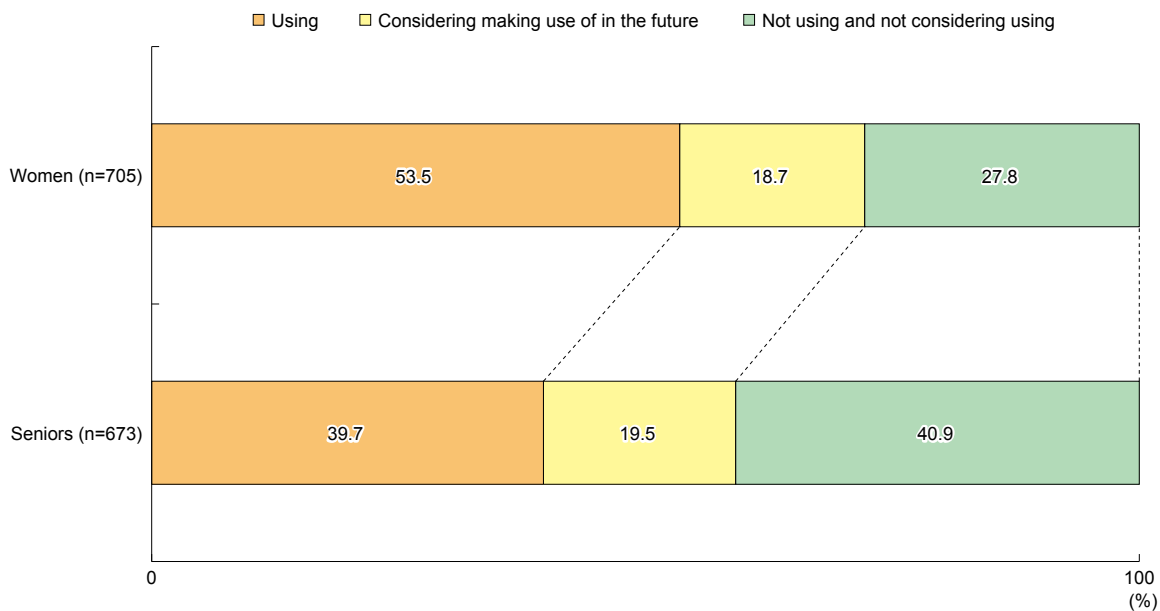
2. Aggregated figures exclude persons working for public agencies or other legal entities or groups.

(3) Relationship between making use of varied human resources and trends in volume of sales

As the foregoing shows, making use of women and seniors is indispensable to the operations of a micro business. Next, Fig. 2-3-28 presents the situation regarding micro businesses studying making use of

women and seniors. The figure shows that 72.2% of such businesses are either making use of or studying making use of women, and 59.2% are either using or studying using seniors.

Fig. 2-3-28 Use of women and seniors at micro businesses

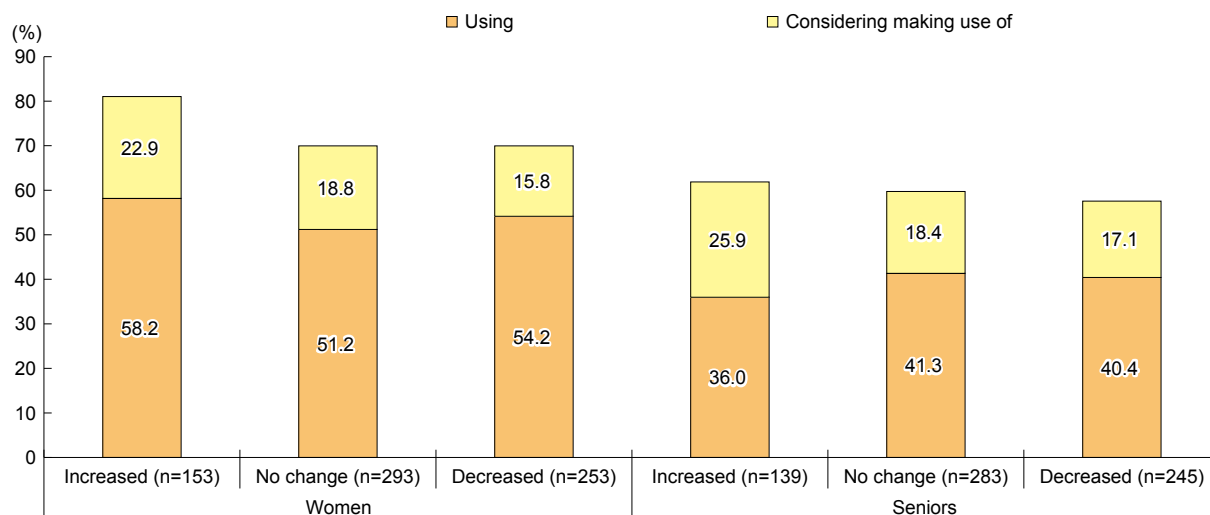


Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Aggregates results for small businesses only.

In fact, when we look at the relationship between using women and seniors to performance, we see that those enterprises whose volume of sales is trending upward are more likely to be either making use of or studying making use of those cohorts. As Fig. 2-3-29 shows, the trends are particularly favorable when it comes to making use of women.

Fig. 2-3-29 Situation regarding employing women and seniors, by recent trends in volume of sales



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

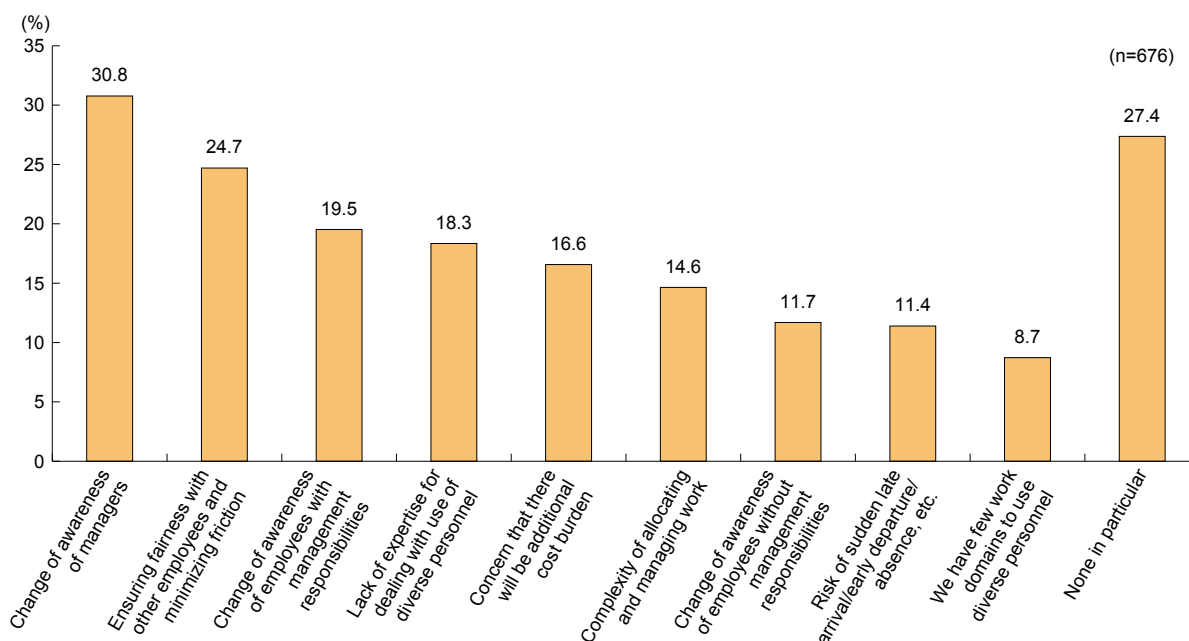
Note: Aggregates results for small businesses only.

(4) Issues when making use of varied human resources

We have reconfirmed the importance of making use of women and seniors for micro businesses at a time when a lower percentage of such businesses are hiring. Let us turn next to the issues that arise for micro businesses when making use of these two cohorts. Fig. 2-3-30 shows that

30.8% of such businesses see “Change of awareness of managers” as an issue, and 24.7% cite “Ensuring fairness with other employees and minimizing friction.”

Fig. 2-3-30 Issues for micro businesses when making use of varied human resources



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

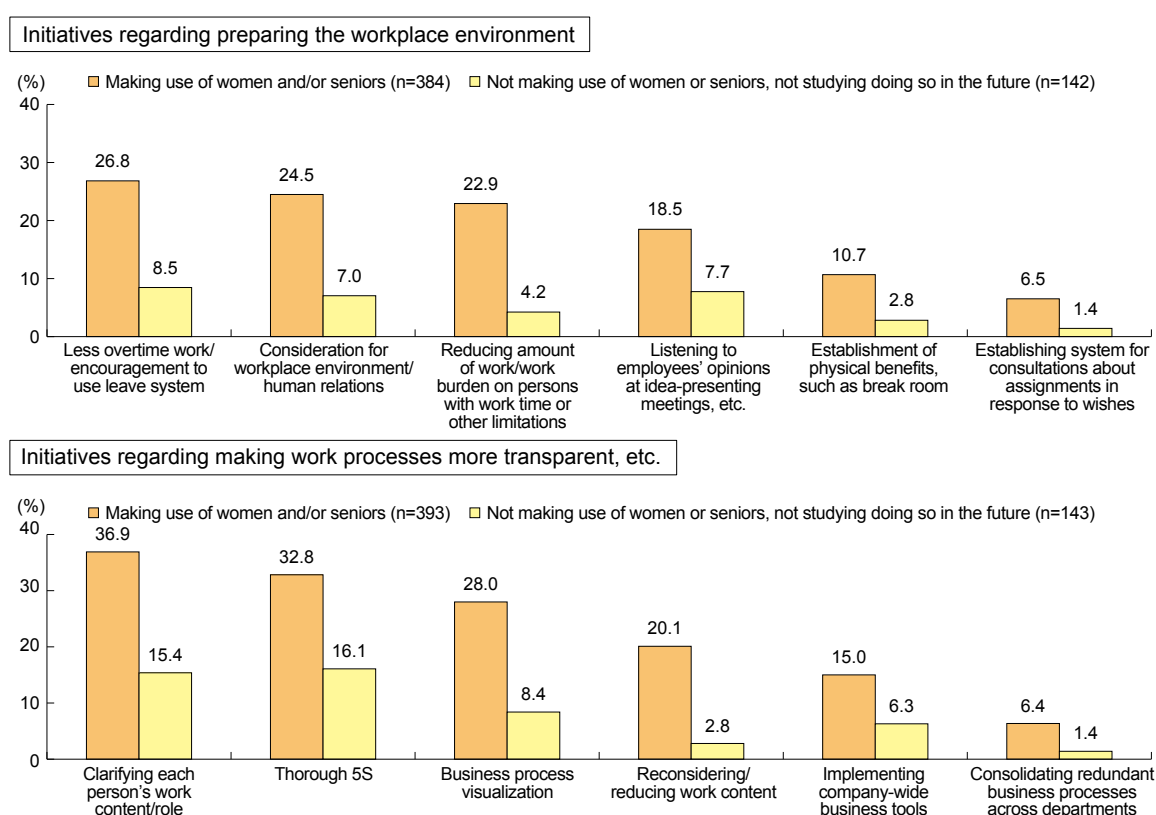
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregated exclusive of enterprises answered “not using and not considering using” about varied human resources.
 3. Aggregates results for small businesses only.

(5) Initiatives toward making use of varied human resources

With micro businesses facing the sorts of issues just noted, what sorts of initiatives are they undertaking when it comes to making use of varied human resources or studying doing so? Fig. 2-3-31 shows the initiatives that both businesses who are and are not making use of these workers are undertaking with respect to preparing the workplace environment and making work processes transparent.

environment, the figure shows that 26.8% of micro business who are making use of women or seniors have “Less overtime work/encouragement to use leave system” and 24.5% “Consideration for workplace environment/human relations.” With respect to initiatives to make work processes more transparent, 36.9% are “Clarifying each person’s work content/role” and 32.8% are “Thorough 5S.”

Fig. 2-3-31 Initiatives undertaken to introduce flexible work-styles, by state of employing women and seniors



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.

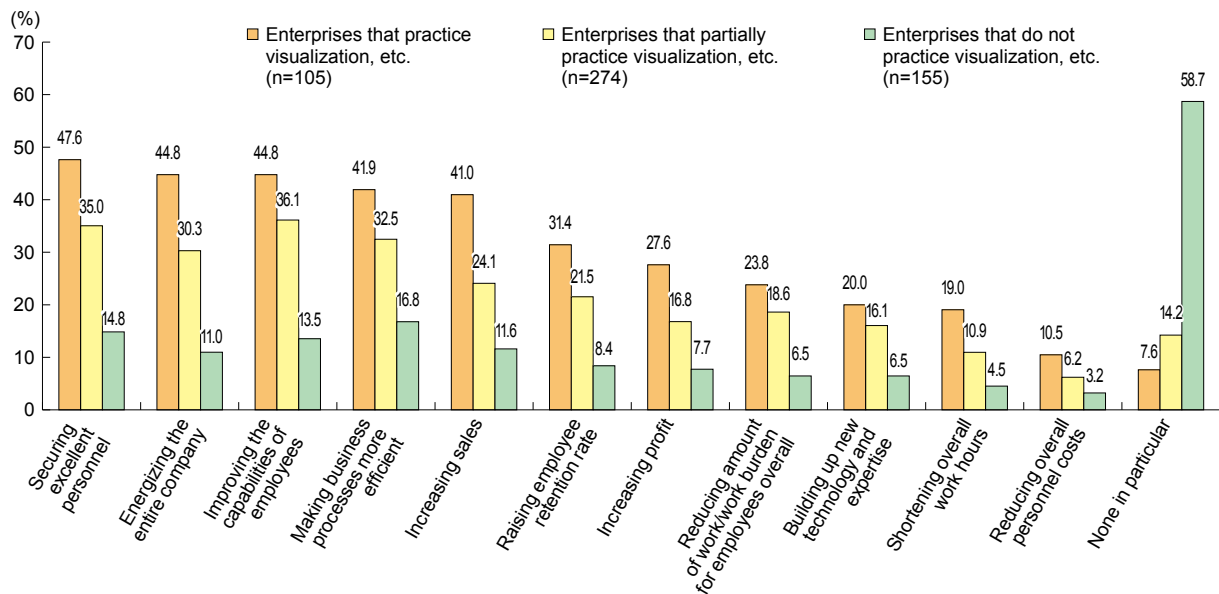
2. The top six responses given as initiatives undertaken are shown.

3. Aggregates results for small businesses only.

We look next at the relationship between initiatives to make work processes more visualized and the effects that can be achieved by making use of varied human resources. Fig. 2-3-32 shows that generally speaking

micro businesses striving to make their work processes more visualized sense the effects that can be obtained from making use of varied human resources.

Fig. 2-3-32 Correlation between initiatives undertaken at visualization in order to achieve flexible work-styles, and effects thought to have been achieved by making use of varied human resources



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

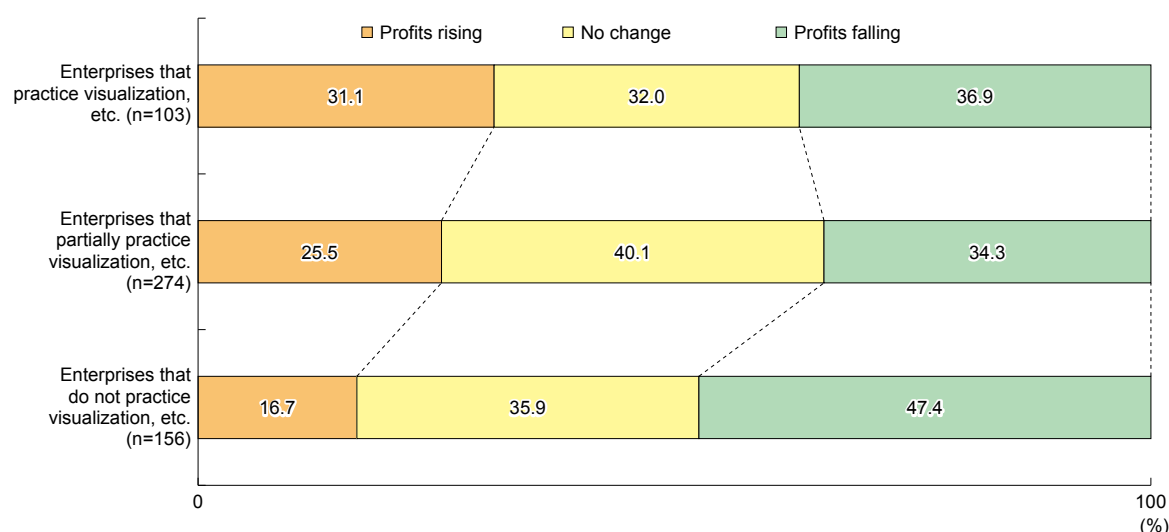
Notes: 1. Aggregates small businesses only using the varied human resources.

2. "Enterprises that practice visualization, etc." refers to enterprises that said they practice "business process visualization" and additionally at least one of the following: "thorough 5S," "clarifying each person's work content/role," "reconsidering/reducing work content," "implementing company-wide business tools," and "consolidating redundant business processes across departments." "Enterprises that do not practice visualization, etc." are those that answered they do not conduct any of these efforts. All others fall under "enterprises that partially practice visualization, etc."

(6) Relationship between making use of varied human resources and trends in ordinary income

Finally, we look at the relationship between initiatives to make work processes more visualized and ordinary income. Fig. 2-3-33 shows that enterprises undertaking initiatives aimed at visualization in work also tend to see ordinary income rise.

Fig. 2-3-33 Initiatives undertaken at visualization in order to achieve flexible work-styles and recent ordinary income performance



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Notes: 1. Aggregates small businesses only using the varied human resources.
2. "Enterprises that practice visualization, etc." refers to enterprises that said they practice "business process visualization" and additionally at least one of the following: "thorough 5S," "clarifying each person's work content/role," "reconsidering/reducing work content," "implementing company-wide business tools," and "consolidating redundant business processes across departments." "Enterprises that do not practice visualization, etc." are those that answered they do not conduct any of these efforts. All others fall under "enterprises that partially practice visualization, etc."

Case 2-3-8 Sugioka Textile Co., Ltd.

A company that increases its sales annually despite operating with a small staff by means of equipment investments and Internet sales

Sugioka Textile Co., Ltd. (employees: 4; capital: ¥22.5 million), located in Takashima City, Shiga Prefecture, manufactures and wholesales products including cotton crepe, Yoryu crepe and Dobby textiles, and markets needlework products. The company was established 62 years ago. The Takashima region in which the company is based has prospered since the Edo period as the region in which "Takashima chijimi¹⁸⁾" is produced. Sugioka Textile's current President and Representative Director, Sadahiro Sugioka, took over management of the company from the former President, his father Takashi Sugioka, in 2014. Mr. Sugioka felt that if the company continued to operate as it always had done, it would not be able to survive into the future. He had been collecting information on subjects including customer needs and available subsidies since before the management succession, and when he took over the company he set about realizing a new organization.

For example, Mr. Sugioka successively introduced machinery and equipment suited to the goal of enabling the company to rapidly produce goods that accurately reflected customer needs. In December 2016, he introduced a high-performance design system, using a grant provided by the SME Agency to support the development of new production, trading and services businesses. This system made it possible to print out a textile design on paper by inputting the details of the warp and the weft. These printouts could then be used as samples. Previously, every time a sample was requested, it was necessary to individually weave the design requested by the customer. The introduction of the new system significantly reduced the time and cost involved in the production of samples, and because it was now also possible to present multiple samples to customers, it increased the company's ability to close deals. In addition, by introducing the latest looms, the company increased the amount of colors that it was able to weave into its fabrics from four to eight, and made it possible to create products incorporating carefully considered design elements down to the smallest detail in a short lead time. This not only increased the added value of the company's products, but also reduced the burden on employees, for example by significantly reducing the amount of late-night overtime.

Mr. Sugioka's reforms of the company did not stop at the weaving division. In the textile industry, product sales are generally conducted through trading companies. By contrast, from fiscal 2012, Sugioka Textile commenced Internet sales directly targeting end users. Mr. Sugioka says, "This method allows us to obtain detailed data on customer trends, for example differences in seasonal demand and differences between store-based and Internet sales, and we have been able to use this data in product development. In addition to that, it enables us to reach out to people who previously wouldn't have known about us." The new system also enables the company to receive opinions directly from consumers, which increases motivation among the employees of the weaving division.

In addition, while the use of handwritten vouchers and pay statements is standard among traditional local industries, Sugioka Textile was an early adopter of a system for automating clerical procedures in 2006. This eliminated the wasteful procedure of re-entering vouchers into ledgers, reducing the burden on clerical staff. In 2015, on the recommendation of its accountant, the company introduced Cloud accounting, and is actively working to increase the efficiency of its clerical procedures.

These initiatives have made it possible to realize a high-value-added business despite operating with a small staff, with the company's sales increasing from approximately ¥98.2 million in fiscal 2011 to approximately ¥170.3 million in fiscal 2014. This increase in sales enables new facility investments and new initiatives. Takashima City is making efforts to brand Takashima chijimi, and as a core company involved in the initiative to take the brand overseas, from fiscal 2015 Sugioka Textile has visited countries including Taiwan, Indonesia and Malaysia, and these visits have already led to concrete business negotiations. The company has stepped outside of the existing framework in which fabric is woven and sold to a wholesaler, and operates a consistent system from the development of finished products through production and sale to the consumer. Sugioka Textile can be expected to further increase its sales in the future by means of initiatives including the development of high-value-added products and the cultivation of new clients.

18) A cotton fabric for thin garments in which a unique nubby texture is realized by using strongly twisted threads in the weft. Registered and was approved for a regional collective trademark as a regional brand in 2012.



Sugioka Textile's President, Sadahiro Sugioka



The company's Takashima cotton crepe suteteko (long underwear for men), made entirely within Takashima from carefully selected materials

3. Making use of outsourcing

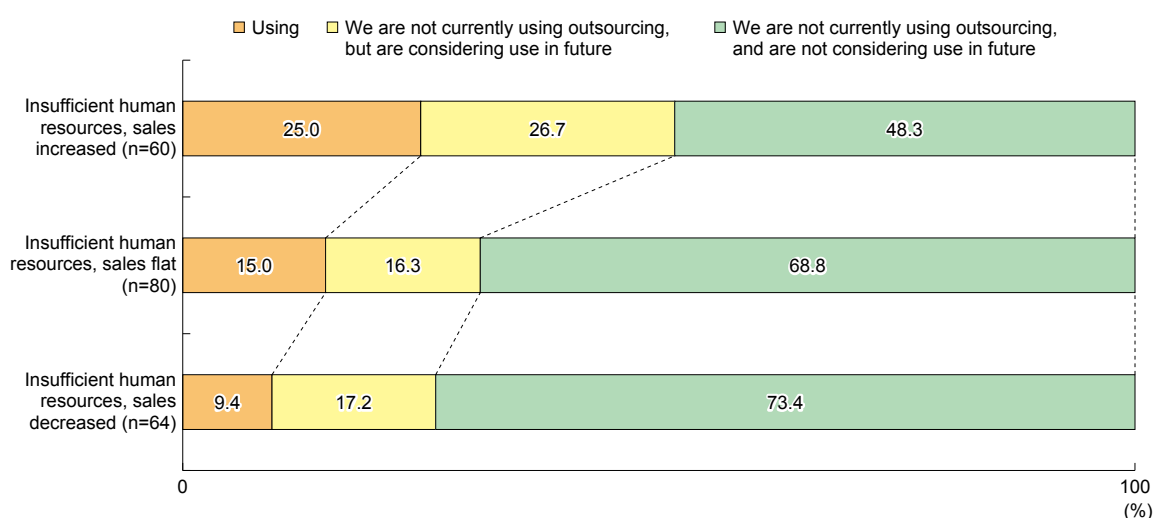
(1) Status of initiatives to make use of outsourcing

In subsection 3, we will look at the situation regarding the use of outsourcing by micro businesses. “Outsourcing” as used in the present subsection means to make use of external resources aside from the subcontracting of manufacturing and construction in order to maintain and improve enterprise value. For micro businesses with their limits when it comes to human capital, making proactive use of outsourcing is seen as an approach to dealing with shortages in human resources that’s effective in the same

way that making use of women and seniors is.

To begin, let us look at how those micro businesses that are faced with shortages in human resources are making use of outsourcing. Fig. 2-3-34 presents the situation regarding the use of outsourcing, broken down by recent trends in volume of sales. It shows that enterprises whose volume of sales has been trending upward are more likely to make use of outsourcing.

Fig. 2-3-34 Situation regarding use of outsourcing at enterprises with insufficient human resources, by recent trends in volume of sales



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

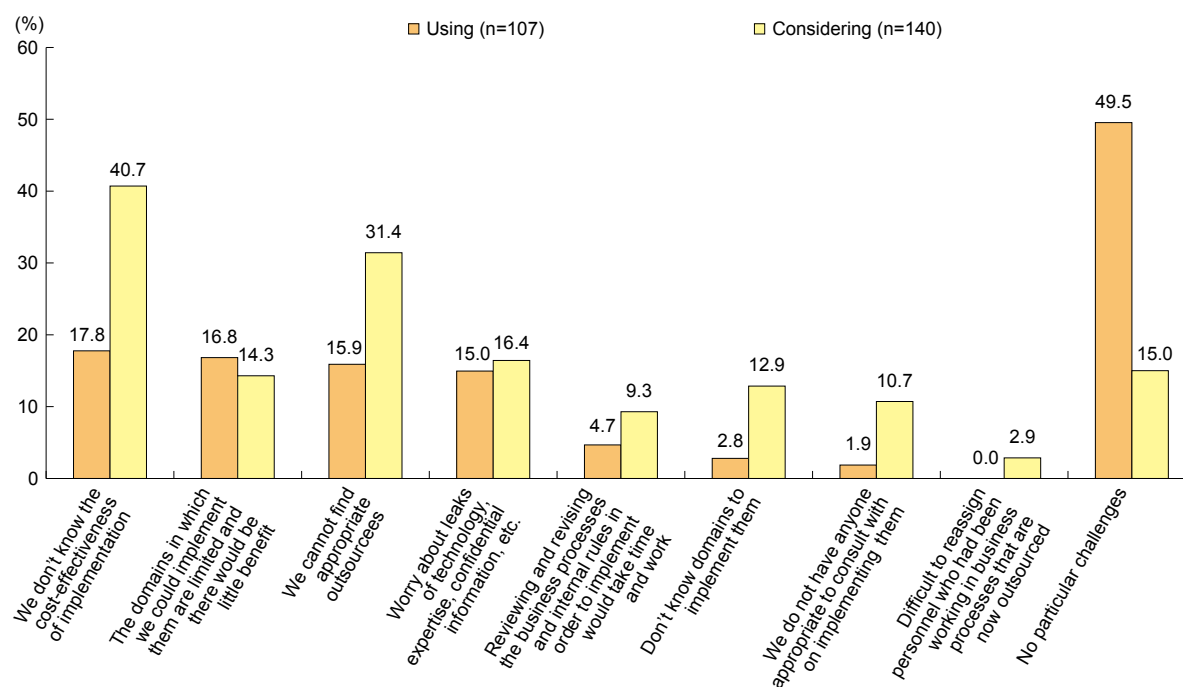
- Notes:
1. Aggregates results for small businesses only.
 2. “Enterprises with a personnel shortage” are those enterprises that answered, “there is a shortage of both core personnel and labor personnel.”
 3. “Core personnel” refers to personnel who have a high degree of expertise and technical skill and are the backbone of business activities, and “labor personnel” refers to personnel who do not have a high degree of technical skill and work under the command of core personnel, providing the labor that is indispensable to business operations.
 4. Here, “outsourcing” refers to contracting work other than manufacturing/construction to outside parties.

(2) Issues regarding making use of outsourcing

Next we look at the issues that come when making use of outsourcing. Fig. 2-3-35 shows that those enterprises studying the use of outsourcing face such issues as “We don’t know the cost-effectiveness of implementation”

and “We cannot find appropriate outsourcees.” On the other hand, nearly half of those micro businesses that are already making use of outsourcing report they have “No particular challenges.”

Fig. 2-3-35 Issues with adopting outsourcing, by state of usage of outsourcing



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates results for small businesses only.

(3) Work where need for outsourcing has increased

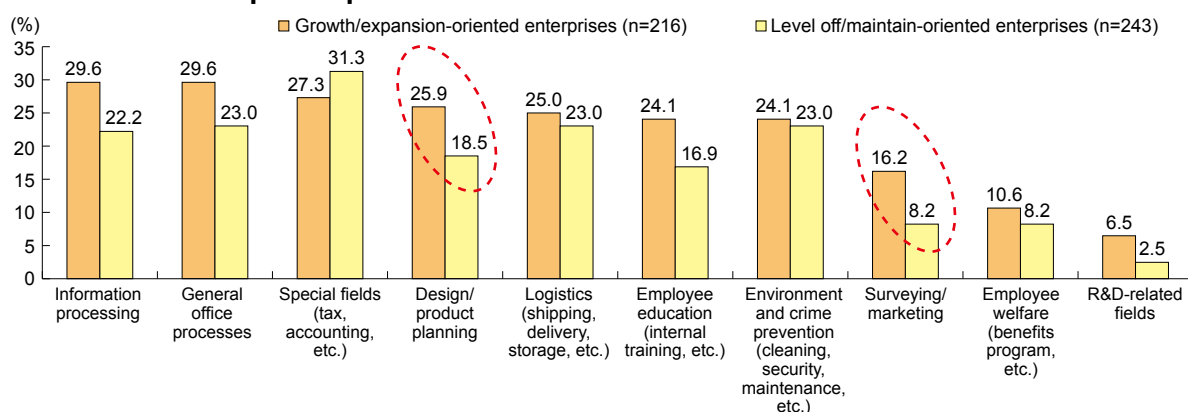
Next, Fig. 2-3-36 offers an overview of the forward outlook for outsourcing among SMEs. The business policies pursued here can be categorized as “growth and expansion,” “level off and maintain,” “contract,” and “closure.” Of these categories, we will consider the first two.

“Tax accounting” is already widely known among SMEs. Compared to other work domains, it got a particularly high percentage (31.3%) of responses from “level off/maintain-oriented enterprises.” At growth/expansion-oriented enterprises, however, there is a wide range of business processes where the need for outsourcing is growing. Compared to level off/maintain-oriented enterprises, a high percentage of growth/expansion-oriented enterprises see a rising need for

outsourcing of the specialized business processes “design/product planning” and “surveying/marketing.”

The businesses whose responses are presented in the figure include a number of medium enterprises. However, it may be surmised that those micro businesses with policies geared toward growth and expansion likewise see the increasing importance of outsourcing as a means for handling work in such areas as addressing fluctuations in busy and quiet periods, regular but hard-to-differentiate information processing, general office functions, and taxation matters and accounting. What’s more, they also see the importance of using outside professionals to improve the added value of their company’s products and services for such activities as design and product planning and surveys and marketing.

Fig. 2-3-36 Business processes with a rising need for outsourcing, by type of business development policies



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates SMEs that answered the business processes they are outsourcing “have increased” or “have somewhat increased” compared to five years earlier.

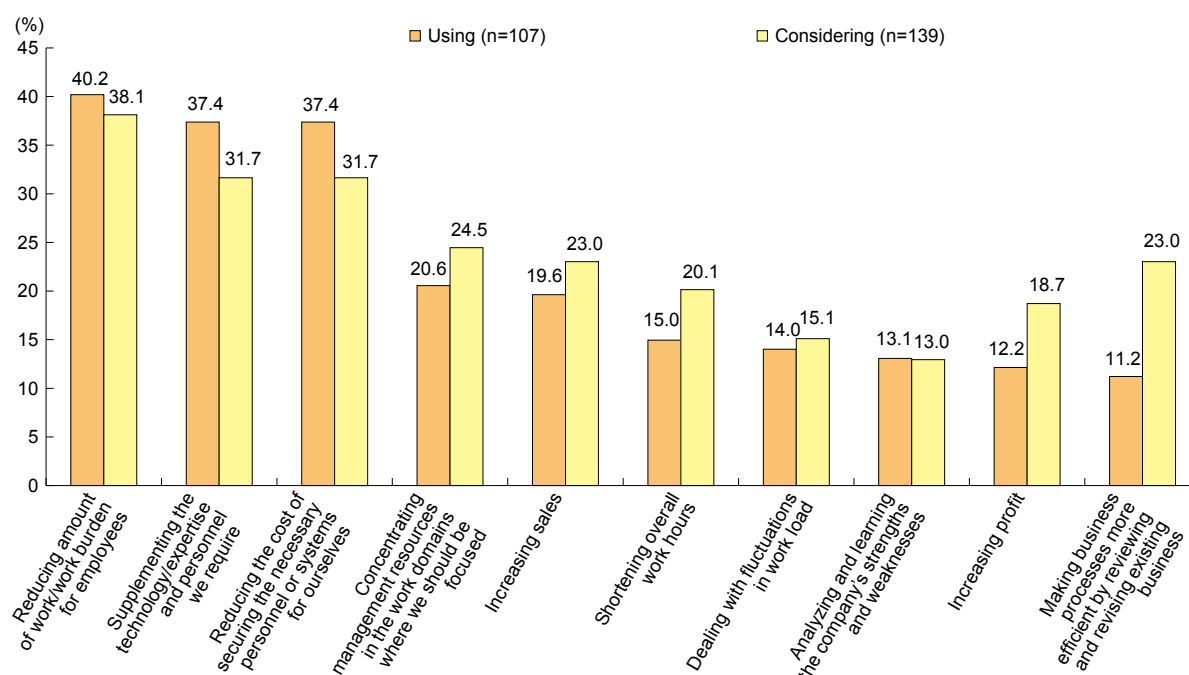
(4) Effects produced by making use of outsourcing

Finally, what sorts of effects do micro businesses see making use of outsourcing as having on what areas? Fig. 2-3-37 analyzes the effects with a focus on the differences between those enterprises that are making use of outsourcing and those that are still studying it. The figure shows that among those enterprises using outsourcing, many see it has the effect of “Reducing amount of work/work burden for employees” as well as “Supplementing the technology/expertise and personnel we require” and “Reducing the cost of securing the necessary personnel or systems for ourselves.” Enterprises studying making use of outsourcing expect effects similar to those businesses already doing so are obtaining. In addition, they also expect to “Concentrating management resources in the work domains where we should be focused,” “Making

business processes more efficient by reviewing and revising existing business and reducing costs,” and “Increasing sales.”

As Fig. 2-3-35 showed, micro businesses can see there are issues in terms of calculating cost effectiveness and finding appropriate matches when they adopt outsourcing. However, by making use of it they can also expect such outcomes as relieving some of the burdens on their own company’s employees and acquiring outside know-how, which offers the possibility of making a major contribution to that micro business’s growth. They do have concerns about the outflow of their own company’s technology and know-how, but indications are that proactively taking in and making use of outside knowledge is an important factor underpinning growth.

Fig. 2-3-37 Effects thought achievable through making use of outsourcing



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates results for small businesses only.

Case 2-3-9 YPP Co., Ltd.

A company whose registered team members provide support for understaffed SMEs using their spare time

YPP Co., Ltd. (employees: 10; capital: ¥9.4 million) has its Head Office in Tokyo's Chuo City, and is a company that provides clerical outsourcing services, including accounting, order management and payroll calculation.

The company's President and Representative Director, Noriko Gomibuchi, founded the company in 2005, after leaving her previous job to devote herself to child-raising. Ms. Gomibuchi was then working with other mothers of small children. It could not be foreseen who would need to take time off and when, and as a result, the women established a team system, in which they would mutually cover for each other when necessary. This idea provided the foundation for Ms. Gomibuchi's current business, which focuses on work sharing.

As of the end of March 2017, YPP had 716 registered team members acting as proxies for clerical duties. Many of these team members have restrictions on the working styles that they are able to adopt due to a variety of personal situations, for example raising children, providing nursing care to a family member, or an illness or disability, but registered with the company because they wanted to work at least some hours, using their spare time. Because the nature of the work allows them to work at home, YPP has team members throughout Japan, and some even reside overseas.

The company does not simply match proxies with duties. It makes efforts in a range of ways to consider the ease of performing jobs for its team members and to allow the smooth implementation of the duties taken over from clients. For example, to enable it to respond to team members suddenly needing to take time off due to family circumstances, etc., the company forms teams suited to the details of the duties required and the period within which they must be completed from the people on its books, and has the duties performed by multiple team members. This means that a flexible working style is possible, with individual team members not required to be responsible for on-time performance of the work. The ability to outsource duties to multiple people also has the merit of allowing companies to more easily respond to fluctuations in the volume of work.

YPP has multiple team members in remote locations working on the same job stay in touch with each other using Internet chat functions while proceeding with the job. The company also to a certain extent formulates procedural manuals for the jobs it receives from clients, offering the job to its team members after breaking it down into procedures able to be performed by anyone with basic computer skills. In addition, because the majority of its team members work from home, the company is particularly careful with regard to the treatment of information, making training in the treatment of personal information mandatory and requiring team members to submit photographs allowing it to check their working environment (management of laptop computer security, etc.).

Some team members have not worked for several years, and some have little work experience, leading the company to establish an environment in which team members double check each other's work, and veteran team members conduct follow-ups via chat functions. The period until a team member becomes familiar with the work is not a training period; team members acquire skills by performing the work, for which they are remunerated. "Trial and error, mistakes and uncomfortable difficulties provide nourishment for the individual's growth," says Ms. Gomibuchi. YPP's team members also include individuals with physical disabilities. There is one case in which such an individual started out working restricted hours, three days a week for two to three hours a day, a level which does not fulfill the prescribed working hour requirements for a full-time employee, but while working for the company increased in strength and energy and gained job skills, enabling her to find work as a full-time employee at another company, working five days a week from home. Ms. Gomibuchi says that there are quite a few similar cases in which team members have gained experience with her company and "graduated" to become full-time employees or find other positions.

On the customer side, the majority of YPP's customers are SMEs or sole-proprietor businesses. These companies have few employees, and in many cases clerical duties including general coordination and accounting are handled by one person. As a result, non-urgent work tends to be postponed. It is also not easy for such companies to supplement their staff in order to perform clerical duties. YPP offers proxies to perform this backed-up clerical work. There are cases among YPP's clients of companies being left

with no-one to oversee procedures such as sales and order management due to an employee suddenly quitting, and the outsourcing of the necessary procedures has enabled them to continue their clerical work without any delays until a replacement was found.

One of the company's distinctive features is that its role as a coordinator (dividing up the procedures requested by customers and formulating procedural manuals matching the skill level of team members, coordinating when customers make excessive demands on team members, conducting follow-ups regarding any dissatisfaction on the part of team members, etc.) enables the matching services it provides between companies and staff to ensure an appropriate standard of clerical outsourcing.

YPP has now also commenced offering non-outsourcing-related consultation regarding matters including the formulation of manuals for general clerical and accounting procedures and approaches to solving problems. Ms. Gomibuchi is therefore looking towards fostering team members with the desire and the aptitude to become involved in sales and consulting in addition to providing proxy clerical services.

The role played by YPP - providing support for SMEs that are unable to secure enough staff and wish to focus their resources on core operations by enabling them to outsource clerical procedures, and providing individuals who find full-time work difficult but still wish to work a certain number of hours with the opportunity to increase their skills while working - will become increasingly important in the future.



Noriko Gomibuchi, YPP's founder and President



One of the company's team members, working from home while raising children

Section 4 Summary

Micro businesses comprise an important presence that supports local economies. They are also quite diverse when it comes to their trade areas and industry types. Due to their small size, they have limited management resources and face issues in such areas as the development of new markets, securing human resources, and developing new products and services. In this chapter, we have looked at what micro businesses can do to increase sales by grasping their clients' needs and their own company's strengths as well as by undertaking PR activities.

Thanks to developments in information technology, even micro businesses can make use of the internet, social media, and the like at no great expense to increase the means at their disposal for connecting with new clients and developing new markets. In fact, micro businesses that are engaged in PR activities through them are experiencing a variety of salutary effects such as acquiring new clients, improving their own company's name recognition, increased sales, and improved motivation among employees. However, many micro businesses are faced with the issue of shortages in human resources when it comes to undertaking such new initiatives.

Labor shortages are worsening for SMEs as a whole, and securing human resources in particular has become a major problem. However, while the proportion of micro businesses who go through rounds of hiring regularly is low, such enterprises are finding success with retaining the people they need by preparing workplace environments

where women and seniors among other can thrive, by giving careful consideration to each and every employee, and by adopting flexible work-styles. There is a tendency for those micro businesses that work to make use of such varied human resources to make their work more efficient by making work processes more transparent and as a result achieve increased sales.

Furthermore, by not fixating on one's own internal management resources and instead making skillful use of external ones through outsourcing, even micro businesses can implement the business policies they are aiming for even with labor shortages. Those businesses that have increased sales and acquired new customers by making use of outside professionals not only for accounting tasks but also in such fields as marketing and design have not really experienced any issues when it comes to using outsourcing.

As this chapter has shown, the important things for micro businesses to do to achieve increased sales, maintain sustainable development, and achieve growth are develop flexible work-style and make use of varied human resources to retain employees; in the context of labor shortages, make proactive use of external resources through outsourcing; clarify your own company's business policy; offer attractive products and services that make the most of your own company's strengths, and get the word out about all this through proactive public relations efforts.

Small enterprise policies implemented in fiscal 2016



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Small enterprise policies implemented in fiscal 2016

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The Basic Act for Promoting Small Enterprises approved 20 June, 2014 prescribes four basic policies for taking measures regarding the promotion of small enterprises in accordance with the basic principles for the sustained development of micro businesses.

<Basic policies>

1. Promote sales of products and provision of services that respond to diverse domestic and foreign demand, and promote the development of new businesses.
2. Facilitate effective use of management resources by small enterprises and the fostering and securing of personnel required by small enterprises.
3. Facilitate business activities of small enterprises that contribute to invigorating regional economies, improving the lives of local residents, and promoting exchange.
4. Develop a support system to provide appropriate support to small enterprises and devise other necessary measures.

Toward realizing these four basic policies, the Basic Plan for the Promotion of Small Enterprises (Cabinet decision of 3 October 2014) sets the following four goals.

- (1) Promoting business management that should be implemented for future demand
- (2) Promoting business renovation
- (3) Facilitating business activities contributing to regional economies
- (4) Developing a system for supporting micro businesses through community-wide collective efforts

The following chapters introduce the measures for small enterprises implemented in fiscal 2016 toward achieving these four goals.

Chapter 1 Promoting business management that should be implemented for future demand

Goals of the Basic Plan for the Promotion of Small Enterprises (1)

(1) Promoting business management that should be implemented for future demand

- Creating and discovering demand for micro business by more proactively taking advantage of their conventional face-to-face relationships with customers -

Small enterprises are facing reduced demand from structural factors in the Japanese economy and society including population decline and lifestyle changes. Moreover because of limitations on funds, personnel, product development capacity and other management resources, small enterprises have weak price competitiveness and sales abilities, and are easily influenced by structural changes.

On the other hand, because of their strengths in transactions based on face-to-face relationships of trust, small enterprises have the potential to develop new demand inside Japan and overseas by grasping needs to which large enterprises cannot respond, and developing and providing various products and services that are not caught up in price competition. Additionally, with the spread of IT, the potential for activities beyond existing business regions is expanding even for enterprises that are small scale. To maximize such potential response of small enterprises to structural changes, promote systematic management anticipating demand which grasps enterprise strengths, creates and cultivates demands, makes greater use of IT, and develops and provides new products and services.

Section 1 Enhancement of productivity improvement and technological capacity

1. Strategic Core Technology Advancement Program and support program for collaborative efforts

[Fiscal 2016 budget: ¥13.97 billion]

Support was provided for R&D initiatives that SMEs and micro-businesses having an approved R&D plan under the SME Technological Advancement Act implement in cooperation with universities, public research organizations, and other such R&D institutions.

Support was also provided to SMEs and micro-businesses in their effort to develop a new service model based on industry-academia-government collaboration, in line with a cross-field collaboration plan for cultivation of a new business field that has been approved under the Act on Strengthening the Management of SMEs, etc.

2. Support for innovation creation by R&D-type venture enterprises

[Fiscal 2016 supplementary budget: Included in ¥1.5 billion]

The New Energy and Industrial Technology Development Organization (NEDO) provided subsidies to medium enterprises and SMEs that engage in joint research by utilizing the capabilities of “bridgebuilding R&D institutions” that can link innovative technology seeds with commercialization initiatives.

3. The National Institute of Advanced Industrial Science and Technology (AIST)’s bridgebuilding initiatives for medium enterprises and SMEs

[Included in the grant for AIST operating costs]

AIST supported the R&D initiatives of medium enterprises and SMEs by establishing a nationwide framework of cooperation such as through the appointment of an AIST innovation coordinator in public research organizations that possess knowledge of the needs of regional medium enterprises and SMEs, and by strengthening capacities to “bridge” innovative technology seeds of regional enterprises with commercialization initiatives.

4. Comprehensive support for enhancement of core manufacturing technologies among SMEs

Comprehensive support was provided through the Strategic Core Technology Advancement Program and special loans and guarantees to SMEs and micro-businesses with approved specific R&D plans that had been formulated in accordance with the advancement guidelines under the SME Technological Advancement Law.

5. R&D promotion tax system (for strengthening the technological bases of SMEs)

[Taxation scheme]

A tax credit equal to 12% of the total cost of testing and research expenses (not exceeding 25% of the total amount of corporation tax in the current period) was made available for R&D undertaken by SMEs and micro-businesses. A tax credit equal to 20% or 30% of the total cost of special testing and research expenses

(testing and research performed jointly or entrusted to a university or such institution, or that are performed by receiving from an SME the right or approval to use its intellectual property) was also made available (not exceeding 5% of the total amount of corporation tax in the current period). In addition to the above, a measure was taken whereby enterprises can choose either (1) a tax scheme that deducts an amount calculated by multiplying the rate of increase in testing and research expenses to the amount of increase (not exceeding 30%) in cases where the additional amount of testing and research expenses exceeds 5% of the average of the past three years, or (2) a tax scheme that deducts an amount calculated by multiplying a fixed rate to the excess amount in cases where the amount of testing and research expenditure exceeds 10% of average sales (not exceeding 10% of the total amount of corporation tax in the current period (until the end of fiscal 2016)).

6. Support under the Small Business Innovation Research (SBIR) Program

The provision of central government-allocated R&D spending for SMEs and micro-businesses was expanded and the commercialization of the results of technological development activities was promoted, such as by designating specific subsidies for the development of new technologies leading to the creation of new industries, setting targets for expenditures, and formulating policies for measures to support the commercialization of development results achieved using specified subsidies. Additionally, to promote the commercialization of technology development outcomes, SMEs and micro-businesses were informed and encouraged to take advantage of the available commercialization support, such as the database of the technological capabilities of enterprises granted specific subsidies, and the low interest loans offered by the JFC. At the same time, the multistage selection process for the allocation of special subsidies was introduced and expanded.

7. Cross-field collaboration for new business development

Pursuant to the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises, authorization and subsidies were provided for business plans that aim to develop and market new products and services by effectively combining the management resources (technology, markets, etc.) of SMEs in different sectors, in addition to providing wide-ranging support through special loans and guarantees.

8. Program to promote business creation through medical-engineering collaborations

[Fiscal 2016 budget: ¥3.5 billion]

To promote the network for supporting the

development of medical equipment and to provide seamless support from the initial stages of development to commercialization, accompanying-style consultation was provided to approximately 350 collaboration initiatives. Support was also provided for the commercialization of 43 items of medical equipment through a demonstration program, to promote the development of medical equipment through collaborations between manufacturing SMEs and medical institutions.

9. Enterprise vitality enhancement funding

[Fiscal investment and loan program]

Japan Finance Corporation (JFC) provided loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors.

In fiscal 2016 (as of the end of January 2017), loans worth ¥95.2 billion were provided to 11,510 undertakings.

10. Subsidy for innovative manufacturing, commercial businesses, and service development

[Fiscal 2016 supplementary budget: ¥76.34 billion]

To build a strong and steady economy that can respond to global changes in social and economic situations, a subsidy was provided to cover part of the capital investment made by SMEs and micro-businesses to improve their business performance by enhancing their development of innovative services and trial products and their productivity process.

11. One-stop comprehensive support programs for SMEs and micro-businesses

[Fiscal 2016 budget: ¥5.47 billion]

“Yorozu support centers” have been set up in each prefecture as one-stop consultation centers for SMEs and micro-businesses facing various management issues, to provide professional detailed advice and to dispatch specialist advisors to deal with particularly advanced and specific management issues. (From the commencement of the program to December 2016, the program has responded to 478,000 cases of consultations from SMEs and micro-businesses.)

12. Act for Strengthening the Management of SMEs, etc.

Where an SME acquires new machinery or equipment (management improvement facility) (cost of more than ¥1.6 million, productivity increase of 1% (sales commencement within 10 years), etc.) that is specified in a management capability enhancement plan that has been formulated and approved based on the Act for Strengthening the Management of SMEs, etc., a measure was provided to reduce the tax base of the

imposed fixed assets tax by one-half over a period of three years. Measures were also taken to provide financial support, such as by establishing a loan system through the Japan Finance Corporation for SMEs that have an approved management capability enhancement plan (a 0.9% cut from the base interest rate for equipment funds).

Section 2 Promotion of IT

1. IT utilization promotion fund

[Fiscal investment and loan program]

The JFC provided loans to SMEs to promote the utilization of IT that would contribute to increasing their productivity. (In fiscal 2016, loans worth ¥25.8 billion were provided to 2,331 SMEs (as of the end of January 2017).)

2. Support program for introducing IT to increase productivity of services, etc.

[Fiscal 2016 supplementary budget: ¥10 billion]

To strengthen the management capabilities of SMEs, etc., support was provided for the introduction of IT tools and apps that contribute to increasing efficiency in back-office operations and enhancing added-values toward acquiring new customers, in combination with measures related to increasing SME productivity.

3. Support program for improvement of management capabilities and development of IT infrastructure

[Fiscal 2016 supplementary budget: ¥1.3 billion]

A survey was conducted on sharing electronic data among SMEs beyond the bounds of industries, and a consultation meeting was held to introduce best practices in strengthening management capabilities by utilizing IT.

Section 3 Support for market and demand cultivation

1. Micro business promotion program

[Fiscal 2016 budget: Included in ¥5.15 billion]

Support for micro businesses was promoted through the “accompaniment” style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Revised Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro businesses (no. of undertakings selected: 659).

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers of commerce and industry cooperated with businesses to provide wide-ranging support for programs that develop special regional

products and tourism and to develop those markets (survey & research businesses: 61; production businesses: 86 (first year) and 24 (second year)).

2. Package program for wide-area market cultivation by micro businesses

[Fiscal 2016 supplement budget: ¥10 billion]

Micro businesses were supported in their initiatives to create a management plan through the use of locally-based societies and chambers of commerce and industry that possess a nationwide network, and subsidies were provided to cover the costs of cultivating markets based on the management plan (micro business sustainability subsidy). Support was also provided to help micro businesses cultivate wide-area markets beyond their existing trade area by organizing specialty product fairs and business meetings and promoting sales via antenna shops and online sales.

Furthermore, to strengthen the management capabilities of micro businesses, support was provided to an initiative to dispatch supervisors from nationwide organizations to provide guidance and education toward raising the supporting abilities of management advisors.

3. Support for market cultivation by micro businesses

[Fiscal 2016 supplementary budget: ¥12 billion]

A subsidy (micro business sustainability subsidy) was provided for the cost incurred by micro businesses to prepare a management plan and cultivate new markets in concert with societies and chambers of commerce and industry.

4. Support for cultivation of markets through exhibitions, business meeting events, and other events

[Included in SMRJ subsidy program]

SMRJ provided support for the development and expansion of markets for products and services developed by SMEs and micro-businesses through agricultural-commercial-industrial collaborations or by using local resources, by organizing exhibitions, business fairs, and other such events.

5. Market Development Coordination Program

[Included in SMRJ subsidy program]

Market development experts with experience of working at trading companies, manufacturers, etc. (“market development coordinators”) assigned to SMRJ helped SMEs with newly developed products, technologies, and services gain a foothold in new markets and acquire the capacity for market cultivation through the implementation of test marketing activities in the wider Tokyo and Kinki regions.

6. Support program for market cultivation

[Included in SMRJ subsidy program]

The SMRJ supported the market cultivation initiatives of SMEs and venture enterprises by promoting business match-ups between enterprises participating in SMRJ-sponsored trade fairs or concurrent events and buyers, and providing advice.

7. Support for creation of new businesses

[Included in SMRJ subsidy program]

Close, integrated support was provided to SMEs and other entities engaging in new business by stationing experts in marketing and other areas of business in SMRJ's 10 branches and offices across Japan to help formulate business plans based on the Regional Resource Utilization Promotion Act, Agricultural-Commercial-Industrial Collaboration Promotion Act, and New Business Activity Promotion Act.

8. J-GoodTech

[Included in SMRJ subsidy program]

The SMRJ provided support to SMEs seeking to cultivate markets in and outside of Japan, by connecting them to major domestic manufacturers and overseas enterprises via a website that posts information about Japanese SMEs boasting top-niche and only-one technologies and products.

Section 4 Support for overseas expansion

1. Global alliance support with medium enterprises and SMEs in Japan

To support investment tie-ups between medium enterprises and SMEs in Japan and foreign enterprises, a framework was established in which JETRO acts as an intermediary in conveying the requests of foreign enterprises to relevant institutions (SMRJ, Shoko Chukin Bank, SBIC, etc.), matching medium enterprises and SMEs in Japan with foreign enterprises, and promoting the utilization of public and private funds.

2. Program for supporting overseas expansion by SMEs and micro-businesses

[Fiscal 2016 budget: ¥1.43 billion]

To support overseas expansion by SMEs and micro-businesses, the SMRJ and JETRO collaborated in providing strategic support through measures that respond to their needs at various stages of overseas expansion. They included support for the cultivation of overseas companies through the provision of information on overseas market trends and regulations, implementation of feasibility studies, and establishment of an export framework, as well as support for participation in trade fairs in Japan and overseas, support for the cultivation of overseas

markets by inviting overseas buyers to Japan, local support once companies advanced overseas and support for the formulation of business restructuring plans.

3. JAPAN Brand Development Assistance Program **[Fiscal 2016 budget: Included in ¥1 billion]**

To facilitate overseas expansion by SMEs, support was provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and participation in overseas trade fairs.

4. Program for the creation of a global value chain through agriculture-commerce-industry collaboration

[Fiscal 2015 supplementary budget: Included in ¥1 billion]

With the objective of promoting the cultivation of new markets overseas for agriculture, forestry and fishery products and foods, support was provided for the creation of a value chain that encompasses all processes from agricultural production to processing, distribution and sales, through an agriculture-commerce-industry collaboration that applies commercial and industrial technologies and knowhow to agriculture, and the results were widely disseminated. Twenty projects were selected in fiscal 2016, and symposiums for disseminating their results were held in Tokyo and Nagoya. (New)

5. Funding for overseas expansion and business restructuring operations

[Fiscal investment and loan program]

Loans were provided by the JFC (SME Unit and Micro Business and Individual Unit) to assist with the funding of SMEs that for business reasons need to expand overseas or restructure their overseas business to adapt to structural economic changes.

6. Support for overseas subsidiaries to obtain capital, etc.

Under the SME Business Capabilities Enhancement Support Bill, where SMEs had management innovation plans approved under the New Business Activity Promotion Act, the JFC provided loan guarantees to their overseas subsidiaries for loans from local financial institutions.

7. Global Niche Market Top Support Lending Facility

[Fiscal investment and loan program]

To support strategic overseas expansion by medium enterprises and SMEs who are aiming to make a global impact by excelling in a specific field (global niche

leader enterprises) and such candidate companies and SMEs, the Shoko Chukin Bank provided long-term, lump-sum repayment and successful interest payment-type loans under the Global Niche Market Top Support Lending Facility. Loans worth a total of ¥6.9 billion were provided to 65 enterprises in fiscal 2016 (as of the end of January 2017).

8. Program for cultivation of emerging markets based on technical cooperation

The following three initiatives were implemented to support Japanese companies acquire emerging markets.

- (1) Support was provided to managers and engineers in developing countries who engage in management, manufacturing, operations, etc., by offering training programs in Japan and guidance by dispatched experts. In fiscal 2016, a training program was held for 810 managers and engineers, and 43 experts were dispatched (as of February 2016).
- (2) To resolve the lack of “global human resources” who will play central roles in overseas expansion initiatives, which is an issue among medium enterprises and SMEs, young Japanese workers were given opportunities for overseas internships, and foreign workers were given opportunities for internships in Japanese companies. In fiscal 2016, 80 young Japanese workers were sent overseas, and 103 foreign workers were received by Japanese companies.
- (3) Support was provided to Japanese companies engaging in the development of products and services that resolve social issues in developing countries in collaboration with universities, research institutes, NGOs or other companies in developing countries. Subsidies were provided to 20 projects in fiscal 2016.

9. Utilization of the private-sector collaborative volunteer program and matchups with returned JICA volunteers

The Japan International Cooperation Agency (JICA) worked toward developing personnel capable of active involvement in the global community by utilizing the private-sector collaborative volunteer program to dispatch employees of private-sector enterprises to developing countries as Japan Overseas Cooperation Volunteers (JOCV) and JOCV Senior Overseas Volunteers in response to the needs of each enterprise. Additionally, to support the employment of returned JICA volunteers, match-ups were promoted between personnel with expert knowledge of a certain developing country and enterprises seeking such personnel.

10. Reduction and waiver of fees for credit checks on SMEs using trade insurance

To support the use of trade insurance by exporting SMEs, Nippon Export and Investment Insurance

(NEXI) continued arrangements to bear the cost of providing credit information on business partners required when using trade insurance. Up to three credit checks had been provided for free since 2008, but the number was increased to eight in fiscal 2015.

11. Activities to expand and publicize use of trade insurance by SMEs (creation of a cartoon and video)

A video and cartoon-base pamphlet on trade insurance were created in fiscal 2016, and were shown and distributed at various trade fairs and information sessions to disseminate greater understanding of trade insurance.

12. Activities to expand and publicize use of trade insurance by SMEs (seminars, consultation events, etc.)

To promote the use of trade insurance by SMEs, the NEXI website for SMEs was renewed. Nationwide seminars and face-to-face consultation events were also held under the sponsorship of NEXI, and instructors from NEXI were sent to lecture in seminars hosted by SME-related organizations and study meetings of affiliated regional banks in order to raise awareness and encourage wider use of trade insurance.

13. Improvement of access to trade insurance

In December 2011, NEXI launched the “SME Overseas Business Support Network” in collaboration with 11 regional banks to provide support for overseas business expansion by SMEs. The numbers of cooperating institutions have increased yearly, and in fiscal 2013, a Credit Union Network was established with the participation of credit unions. In fiscal 2016, the addition of a total of 7 new banks and credit unions led to the creation of a network of 112 nationwide financial institutions (as of February 2017).

14. Support for security export control

To ensure effective security trade control based on the Foreign Exchange and Foreign Trade Act, information sessions were held in 60 locations throughout Japan. Additionally, support was provided for the development of voluntary administration structures for security trade control at SMEs that engage in export and the provision of technology, by dispatching specialists through schemes such as the one-stop general support program for SMEs and micro-businesses.

15. Promotion of BOP business [JETRO grant]

To promote “base of the pyramid” (BOP) business and volume zone business, JETRO provided consistent support to individual enterprises as appropriate to

their business phase, by using local coordinators. Additionally, buyers from Uzbekistan, Kazakhstan, Myanmar and India were invited to Japan to hold consultation/business meetings, and subsequently, missions were dispatched to Uzbekistan and Kazakhstan, and local test marketing was implemented in Myanmar and India. In Africa, an acceptability survey was carried out in Nigeria, and local business meetings were organized in Kenya.

16. Program for basic studies, feasibility studies, dissemination and demonstration (ODA match-up program for SME products and technologies)
[Fiscal 2016 budget: ¥4.5 billion]

[Fiscal 2016 supplementary budget: ¥600 million]

This program aims to apply the outstanding products and technologies of Japanese SMEs to the growth of developing countries via ODA, and thereby achieve a balance between the growth of developing countries and economic revitalization in Japan.

17. Support for overseas expansion by SMEs (provision of equipment that use SME products)
[Fiscal 2016 budget: Included in ¥162.9 billion]

Products from Japanese SMEs are donated to developing countries based on request from their governments and development needs, not only to support the development of developing countries, but also to increase recognition of such products.

18. New Export Nation Consortium

[Fiscal 2015 supplement budget: ¥5.99 billion]

To support the overseas expansion of medium enterprises and SMEs, a consortium has been established, widely composed of support organizations such as JETRO, SMRJ, NEDO, and financial institutions. It provides comprehensive support, from the development of technologies to market cultivation, through experts who offer close assistance to enterprises and the utilization of various support schemes.

<State of progress (as of March 10)>

○Membership cards were issued to 3,847 companies, and experts were assigned to commence support.

○At present, the consortium is composed of 1,072 nationwide support organizations. To further increase the number, efforts will continue to be made to enhance its scope of support.

○350 experts from a wide range of fields have been secured at present, to address the various issues faced by medium enterprises and SMEs.

19. Dissemination and awareness-raising of the TPP certificate of origin system

[Fiscal 2015 supplement budget: ¥480 million]

With the objective of disseminating and increasing awareness of the self-certification system of the certificate of origin among businesses, guidelines were published, seminars were held (165 times by March 6, 2017), and consultation desks were established.

Chapter 2 Promoting business renovation

Goals of the Basic Plan for the Promotion of Small Enterprises (2)

(2) Promoting business renovation

- Developing and creating business by providing diverse and new human resources with opportunities for success in the workplace -

Small enterprises are going out of business at an increasing rate as their proprietors and employees grow older and face a shortage of successors. On the other hand, small enterprises are providing diverse working style options based on various values to diverse people including women, youths, and seniors, and contributing to expanded employment in the nation as a whole.

Promote the formation of small enterprises and secondary startups which provide diverse working style options, self-realization, contribute to society, and otherwise create a worthwhile life. Prevent the dispersion of valuable management resources for Japan's economy and society by business succession, and link this to the development of the local economy and society. In cases with no prospects for business succession, prepare the environment for a stable livelihood and for entrepreneurs who have previously experienced business failure to try again by arranging smooth closure of business. Further, reinforce measures to secure and foster small enterprise personnel and prepare an environment where diverse new personnel can manifest their abilities toward realizing a local society where it is easy for anyone to work at small enterprises.

Section 1 Support for new and secondary business startups

1. New and Secondary Business Startup Support Fund

[Fiscal 2016 budget: Included in ¥850 million]

Subsidies will be provided to business owners who start a business that aims to provide new products and services that create new regional demand, to cover the costs of starting the business, and to business owners of secondary startups who discontinue their existing business in whole or in part on occasion of a business succession and foray into a new field, to cover the costs of starting the new business and closing the existing business (legal procedural costs, inventory disposal, etc.). Support was also provided to start-up support businesses that engage in designated operations to support startups under the Act on Strengthening Industrial Competitiveness, where they provide startup support (provision of continuous management guidance to business owners who start a business, provision of business skills enhancement training, implementation of co-working space operations, etc.) based on an approved startup support plan, or undertake an initiative to improve their quality of startup support.

2. Support for businesses that support business startups

[Fiscal 2016 budget: Included in ¥850 million]

Support was provided to startup support businesses that engage in business to support startups of designated businesses under the Industrial Competitiveness Enhancement Act, where they provide startup support services based on an approved business startup support plan (continuous management guidance to business

owners, business upskilling training, operations of co-working spaces, etc.) or undertake initiatives to enhance the quality of their startup support services.

3. New Startup Loan Program

[Fiscal investment and loan program]

Under this program, unsecured, unguaranteed loans are provided by the JFC to persons embarking on new ventures and persons who have just started up in business.

4. Loan Program for Supporting Female, Young, and Senior Entrepreneurs

[Fiscal investment and loan program]

To support the creation of new businesses by diverse entrepreneurs, the JFC provides low-interest loans to women, young people under the age of 30 and older people aged 55 or older, who have started a business within the past seven years or so. Between the establishment of the program in 1999 and the end of December 2016, the program has made 149,581 loans totaling ¥75.1 billion.

5. Funding for renewed startups (lending-support schemes for renewed startups)

[Fiscal investment and loan program]

By assessing entrepreneurs with failed businesses to determine factors such as their qualifications as managers and their business prospects, the JFC offered loans to candidates who faced difficult circumstances in relaunching their businesses.

6. Guarantees for founders

To boost lending to startup entrepreneurs by private financial institutions, a guarantee program was implemented, which specifically encourages credit

guarantee corporations to provide guarantees to individuals who are starting up in business or who started up in business less than five years ago.

7. Improving supply of “risk money” needed when starting a business

The provision of “risk money” that is required when businesses start up or are developed was promoted, through the use of the Innovation Network Corporation of Japan (INCJ), the Development Bank of Japan (DBJ) and the Shoko Chukin Bank.

8. Fund Investment Program (Startup Support Fund, SME Growth Support Fund)

The creation of investment funds operated by private sector investment companies to stimulate private funds was promoted through investment by SMRJ (up to one half of the total value of the fund concerned) with the aim of expanding the range of opportunities for investment in ventures (SMEs) at the startup or early growth stage and in SMEs pursuing growth through the development of new business. The Startup Support Fund now consists of 95 cumulative funds with a total cumulative investment of ¥160.9 billion invested in 2,439 enterprises (as of the end of March 2016). The SME Growth Support Fund now consists of 86 cumulative funds with a total cumulative investment of ¥528.8 billion invested in 987 enterprises (as of the end of March 2016).

9. Program for strengthening cooperation in the global venture ecosystem

[Fiscal 2016 budget: ¥410 million]

Intended for entrepreneurs and potential in-house entrepreneurs who are in charge of cultivating new businesses in large enterprises, this program aimed to develop human resources who could create new businesses from a high perspective, such as with an eye to advancing into global markets or resolving social issues, and create networks with local parties, by sending them to Silicon Valley and other such locations that lead the world as advanced innovation regions. In addition, through the Venture Business Creation Council, composed mainly of entrepreneurs, venture support personnel and large enterprises, the program promoted business matchings and provided forums for creating broad networks, awarded the Prime Minister’s Award to venture enterprises that have made a significant contribution to creating innovation, and established a foundation for the creation of new businesses.

10. Business Startup Schools

[Fiscal 2016 budget: Included in ¥850 million]

Nationwide support organizations held Business Startup Schools to provide startup guidance through

to the creation of a business plan and follow up on activities up to the start of business. A business plan contest was also be held among those who participate in the schools.

11. Angel tax system

[Taxation scheme]

This system assists in the financing of newly founded venture enterprises by individual investors (“angels”) by allowing individual investors who invest in an SME that satisfies certain requirements to receive a preferential treatment on income tax when the individual investor makes such an investment and when shares in that enterprise are transferred. From the establishment of the system in 1997 through to the end of January 2017, the scheme has been used to invest a total of around ¥15.6 billion in 703 companies.

12. Taxation measures to promote venture investment in enterprises

[Taxation scheme]

This initiative allows companies that invest in a venture enterprise through a venture fund certified by the Minister for Economy, Trade and Industry under the Industrial Competitiveness Enhancement Act to accumulate provisional funding for losses of up to 80% of the amount invested and write off that fund as expenses. From the establishment of the system in fiscal 2013 through to the end of January 2017, six investment plans based on the venture fund have been approved.

13. Management Innovation Support Program

Support was provided for new business activities undertaken by SMEs through mechanisms such as low-interest loan programs and special credit guarantees for the implementation of approved management innovation plans prepared by SMEs planning to engage in new business activities to improve their business performance under the Act on Strengthening the Management of SMEs, etc. (Ongoing)

14. Construction of startup support system in the regions

To realize overseas market cultivation by SMEs, support was provided where a group of SMEs work together to formulate a strategy based on the advantages and disadvantages of their materials and technologies, and endeavor to develop products or participate in overseas trade fairs based on that strategy.

15. SME and micro-business management enhancement loan/guarantee program

[Fiscal 2016 budget: ¥1.6 billion]

[Fiscal investment and loan program]

On the premise that support is being provided by approved support agencies, the management of SMEs and micro-businesses was strengthened through measures such as low-interest loans from the JFC (0.4% below the standard rate for women, young people and senior business startups) for business startups, businesses diversification, and changes of business.

16. Subsidies for business generating regional economic activity**[Fiscal 2016 budget: Included in ¥2.61 billion]**

To support the startup of region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) through the collaboration of industry, academia, financial institutions and government, subsidies were granted to cover part of the cost of subsidies provided by local public organizations for expenditure required by private sector businesses at the business establishment phase. Additionally, from fiscal 2016, a next-generation collaborative startup support program was established, which supports the startup of businesses that utilize ideas from local high school students and other young people who bear the future of their region, so that the future generation could feel greater affinity to their region and become an integral part of their local community.

17. Construction of support networks among female entrepreneurs**[Fiscal 2016 budget: Included in ¥200 million]**

Business startups by women were supported by creating female entrepreneur support networks composed mainly of local financial institutions, industrial support organizations, and startup support organizations, in ten nationwide locations, and holding events to spread the knowledge of entrepreneurship to potential entrepreneurs in each region. Furthermore, within each network, a framework was established that could steadily support women at all stages of entrepreneurship and novice female entrepreneurs who face an issue related to business growth, to bridge them over to existing support policies for entrepreneurs and otherwise provide detailed response to women's needs.

18. Lifelong startup support subsidy**[Fiscal 2016 budget: ¥870 million]**

To create employment opportunities for middle-aged and older people and promote the realization of a society where people can remain active throughout their lives, a subsidy was provided to middle-aged and older entrepreneurs to cover part of the expenses

required to start a business, including the costs of recruiting and employing workers and providing education and training.

Section 2 Support for business succession**1. Business succession support****[Fiscal 2016 budget: Included in ¥5.84 billion]**

Business Succession Support Centers established within an approved support organization in each prefecture provided information and advice on business succession to SMEs and micro-businesses facing the problem of lack of successor, and also provided support for business match-ups through M&A and other such schemes. Between April and December 2016, the centers responded to 4,688 consultations and successfully resolved 311 cases.

2. System of deferral and exemption of payment of inheritance tax and gift tax on non-listed shares (business succession taxation scheme)**[Taxation scheme]**

The business succession taxation scheme is designed to help successors to acquire shares and other assets in non-listed companies approved by the Minister of Economy, Trade, and Industry, from their predecessors, whether through inheritance, gift, or testamentary gift. The scheme works by allowing the deferral of payment of inheritance tax and gift tax on the premise that the successor will continue the business and, in certain circumstances (e.g., the death of the successor), exemption from payment of the tax for a grace period. Approvals to qualify for this scheme commenced in fiscal 2009, and as of the end of December 2016, 1,054 approvals had been granted for inheritance tax and 686 approvals had been made for gift tax.

3. Small Enterprise Mutual Relief System

The Small Enterprise Mutual Relief System is a system in which small enterprise owners and corporate officers pay installments that are put aside and paid out as mutual relief money when they enter the market or retire from business. It is essentially a retirement allowance system for managers of small enterprises. As of the end of December 2016, the system had a membership of 1.315 million, and as many as 72,000 new members from April to December 2016.

4. Comprehensive support under the Management Succession Facilitation Act

The Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises incorporates comprehensive support for business successions, involving special treatment under the Civil Code to

resolve the constraints on legally secured portions of successions. By the end of December 2016, 135 confirmations of qualification for this special treatment had been granted by the Minister of Economy, Trade, and Industry.

5. Support to facilitate business successions **[Included in SMRJ subsidy program]**

For wide-ranging and in-depth support for SME business successions throughout Japan, various events were held to provide training for SME support providers and raise SME proprietors' awareness through business succession forums.

Section 3 Cash-flow assistance and business generation support

1. Safety net loans

[Fiscal investment and loan program]

The safety net loan program provides loans worth up to a total of ¥720 million (from JFC's SME Unit and the Shoko Chukin Bank) and ¥48 million (from JFC's Micro Business and Individual Unit) to SMEs and micro-businesses that have experienced, for example, a temporary decline in sales or profits caused by the effects of changes in the social or economic environment. Under the fiscal 2016 supplementary budget, an interest rate incentive was given to support the cashflow of SMEs and micro-businesses preparing against risks such as of the unsteady global economy, where they receive management support from a certified support organization or engage in initiatives to maintain and/or increase employment amid difficult business conditions. In fiscal 2016, approx. 110,000 loans were made with worth a total value of ¥2 trillion (as of the end of December 2016).

2. Managerial Improvement Loans (Marukei Loans) for micro businesses

[Fiscal 2016 budget: ¥3.98 billion]

[Fiscal investment and loan program]

In order to provide financial support to micro businesses, the JFC provided unsecured and unguaranteed low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. (In fiscal 2016, a total of 36,863 loans were provided with a total value of ¥218.7 billion (as of the end of January 2017)).

3. Micro business management development support loans

[Fiscal 2016 budget: ¥20 million]

[Fiscal investment and loan program]

To support sustainable business development by micro businesses, JFC offered low-interest loans to micro

businesses that receive management guidance from societies and chambers of commerce and industry certified under a management development support plan.

(In fiscal 2016, a total of 205 loans were provided with a total value of ¥1.97 billion (as of the end of January 2017)).

4. Promotion of subordinated lending

[Fiscal 2016 budget: Included in ¥15.8 billion]

[Fiscal investment and loan program]

The subordinated lending program is a financing mechanism of the JFC, which solicits joint financing from the private sector to stabilize the financing of SMEs and micro-businesses by providing them with high-risk, long-term, "bullet loans" (capital funds) to enhance their financial underpinnings. In fiscal 2016, approx. 900 subordinated loans were provided, worth a total value of approx. ¥51.4 billion (as of the end of January 2017).

(Note) Loans under this program are limited bullet loans. In the event that the SMEs or micro business taking out the loan enters legal bankruptcy, its repayment precedence is subordinated to other claims. By designing the program so that the interest rate is tied to the success rate for loan repayments in each period, these subordinated loans can be taken to be equity in financial inspections.

5. SME and micro-business management enhancement loan/guarantee program

[Fiscal 2016 budget: ¥1.6 billion]

[Fiscal investment and loan program]

On the premise that support is being provided by approved support agencies, the management of SMEs and micro-businesses was strengthened through measures such as low-interest loans from the JFC for business startups, businesses diversification, and changes of business. (Cited earlier)

6. Encouragement of refinancing guarantees

[Fiscal 2016 supplementary budget: ¥12.5 billion]

Refinancing guarantees are promoted with the aim of encouraging credit guarantee corporations to consolidate multiple outstanding debts and relieve the repayment burdens at hand. In fiscal 2016 (up to the end of December 2016), 133,276 refinancing guarantees were approved, worth a total value of approx. ¥2.56 trillion.

Additionally, a refinancing guarantee program that allows changes and improvements in loan conditions was created, to support SMEs facing difficulty in receiving forward-looking loan support even though their managers have the motivation to improve business, through a relaxation of repayment conditions.

7. Safety-net Guarantees

Credit guarantee corporations provided guarantees separate from ordinary guarantees to SMEs experiencing a management instability due to a bankruptcy of their business partner, a natural disaster, or the streamlining of operations by their main financial institution (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans).

In fiscal 2016, the guarantee was applied in the wake of the Kumamoto Earthquake (Safety-net Guarantee No. 4) and the restrictions placed on production activities accompanying the unfair practice by Mitsubishi Motors Corporation.

Safety-net Guarantee No. 5 was provided on an ongoing basis to SMEs in designated industries that meet certain criteria, such as a certain rate of decrease or higher in average monthly sales of the most recent three months, compared to the previous year.

In fiscal 2016, 21,696 guarantees were approved, totaling ¥469.9 billion (as of the end of December 2016).

8. Management support by credit guarantee corporations

[Fiscal 2016 budget: ¥1.2 billion]

Credit guarantee corporations provided management support such as through the dispatch of experts, to users of credit guarantee corporations, (potential) entrepreneurs planning to utilize a credit guarantee corporation, and SMEs and micro-businesses that engage in management improvement, in cooperation with regional financial institutions, in combination with cash-flow support.

In fiscal 2016 (as of the end of December 2016), experts have been dispatched in approximately 13,000 cases.

9. Program to assist with formulating management reform plans by approved support agencies

For SMEs and micro-businesses that are unable to formulate management reform plans on their own, approved support agencies (certified public tax accountants, lawyers, financial institutions, etc.) provided assistance in formulating management reform plans, as well as follow-up for those plans.

Under the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises, the program defrayed part (two-thirds) of the costs incurred by those activities. As of the end of December 2016, 6,467 consultations were received, including 1,772 cases that were taken up by the program. This brought the total number of consultations received between the inception of the program (March 2013) to the end of December 2016 to 38,543, including 12,769 cases in which the formulation of reform plans has been

completed.

10. SME Revitalization Support Councils

[Fiscal 2016 budget: Included in ¥5.84 billion]

The SME Revitalization Support Councils established at the chambers of commerce and industry and similar entities in each prefecture provided SMEs and micro-businesses that had profitable businesses but faced financial problems with advice on solving their problems through consultation services, and assisted with the drafting of revitalization plans that also included coordination with relevant financial institutions and similar entities. Between April 2016 and the end of December 2016, the councils received 1,204 consultations and formulated 567 revitalization plans, for a total of 38,170 consultations and the formulation of 11,618 revitalization plans from their inception to the end of December 2016.

11. SME Rehabilitation Plan through Succession (secondary companies)

Where an SME rehabilitation plan through succession is authorized under the Industrial Competitiveness Enhancement Act and business succession occurs as set out in that plan, measures were implemented to support financing, along with special provisions for permissible succession.

To the end of December 2016, three such cases were approved, for a total of 39 cases since the system was established based on the Act on Special Measures concerning Industrial Revitalization (June 2009).

12. SME revitalization funds

In order to deliver the funds needed by SMEs to implement their revitalization plans and provide them with financing and management support, the SMRJ, regional financial institutions, and credit guarantee corporations in unison promoted the establishment and utilization of regional funds to assist local SMEs' revitalization efforts and national funds to assist SMEs' revitalization efforts over a wide area. Up to the end of December 2016, 48 funds have been established, amounting to approximately ¥150.3 billion in total. By the end of December 2016, the funds have invested approximately ¥81.1 billion in 397 companies.

13. Promotion of the use of "Guidelines for Personal Guarantees Provided by Business Owners"

[Fiscal 2016 budget: ¥100 million]

To promote the use of the "Guidelines for Personal Guarantees Provided by Business Owners" published on 5 December 2013, help desks were set up in the regional headquarters of the SMRJ in fiscal 2013, and there was ongoing implementation of the system for dispatching specialist advisors for people who want to use the guidelines.

The financing and guarantee systems independent of business owner guarantees by public sector financial institutions created or enhanced in fiscal 2013 were revised to further promote their use. Additionally, the guidelines were disseminated to SMEs and micro-businesses via direct mail and SNS.

14. Enhanced management support for financial administration among micro businesses

Based on the financial monitoring policy, financial institutions were encouraged to promote productivity improvement and smooth business succession in regional industries and enterprises through loans and business support, by amending their lending attitude that relies more than necessary on security and guarantees, and ensuring proper assessment of the business performance and growth potential of borrower companies.

15. Creation of a new low-cost trade insurance for corporate entities related to agriculture, forestry and fisheries

The SME export credit insurance that is appreciated by SMEs for its low premium rate was expanded to include corporate entities related to agriculture, forestry and fisheries in its scope. (New creation of the SME agriculture, forestry and fishery export credit insurance.)

16. Financial support for SMEs in Okinawa [Fiscal investment and loan program]

Regarding support for SMEs in Okinawa delivered via the Okinawa Development Finance Corporation (ODFC), the operations and initiatives undertaken by JFC were performed as usual, while ODFC's own system of lending was expanded to meet the specific needs of businesses in Okinawa.

17. Adoption and application of “Basic procedures for SME accounting”

The adoption and application of the “Basic procedures for SME accounting” was promoted so as to encourage SMEs to clarify their business conditions, improve the ability of proprietors to explain their business, and strengthen their ability to obtain financing. As a dissemination measure, the 0.1% discount on credit guarantee rates was continued to be provided in fiscal 2016 to SMEs and micro-businesses that adopt the “Basic procedures” as their accounting rule.

Section 4 Human resource and employment measures

1. Human resource countermeasures program for SMEs and micro-businesses

[Fiscal 2016 budget: ¥1.81 billion]

To help SMEs and micro-businesses with few

management resources acquire human resources, support was provided in excavating, introducing and retaining human resources that are sought by local SMEs and micro-businesses from within and outside the region. Support was also provided for organizing businesses match-ups, onsite training programs and external seminars, with the aim of developing human resources who will play a central role in SME service industries and manufacturing sites, and human resources could support micro businesses.

2. Human resource development program at the Institute for Small Business Management and Technology

[Included in SMRJ subsidy program]

Training was provided at nine Institutes for Small Business Management and Technology around Japan in improving the abilities of SME support personnel, as well as training for SME proprietors, managers, and people in similar positions designed to lead directly to the solution of business challenges.

3. Support program for development of hometown producers

[Fiscal 2016 budget: Included in ¥1 billion]

Support was provided to initiatives that aim to develop attractive products that involve local people and local resources into local brands and initiatives for developing human resources who could become central players in the cultivation of markets with a focus on overseas markets.

4. Measures to maintain workers' employment [Fiscal 2016 budget: ¥8.26 billion]

Employment Adjustment Subsidies were provided to assist employers who were forced to downsize due to fluctuations in business conditions or other economic reasons but who have kept workers on by allowing workers to take temporary leave from work or enter training, or by transferring workers. Active steps were also taken to prevent fraudulent receipt of these subsidies, and efforts were made to ensure more appropriate disbursement by such means as actively carrying out on-site checks and publishing the names of employers who have committed fraud.

5. Support for improvement of employment management toward the creation of attractive employment

[Fiscal 2016 budget: ¥6.1 billion]

To support corporate initiatives to improve their employment management and create attractive employment, the subsidy for supporting workplace retention was provided to SME organizations (business cooperatives, etc.) having improvement plans certified by the relevant prefectural governor pursuant to the Act on the Promotion of Improvement of Employment

Management in Small and Medium-Sized Enterprises for Securing Manpower and Creating Quality Jobs, where they have implemented projects to improve their working environment. The subsidy was also provided to SMEs and micro-businesses that introduced and implemented a new employment management system by changing their labor agreements and workplace regulations, lowered the job separation rate of their employees, or introduced assistive nursing care devices. Additionally, within this system, a subsidy for the employment management of nursing care workers (April 2016) and a subsidy for the employment management of childcare workers (October 2016) were created, to support business owners of nursing care or childcare services who endeavor to lower the job separation rate of their employees by developing a proper wage system.

6. Project for promoting the improvement of employment management plans to secure human resources in sectors that lack personnel
[Fiscal 2016 budget: ¥880 million]

Support was provided for the creation of attractive workplaces, such as by supporting the introduction of employment management systems, in cases where business owners in sectors that lack personnel improve employee benefits and working environment or otherwise take measures to improve employment management and secure human resources.

(1) Model survey course

In sectors where employment management issues that need to be addressed by business owners are not yet clear, fine-tuned consultation was provided to business owners facing an employment management issue, to help them introduce and operate various models of employment management systems that contribute to resolving their issue.

(2) Practical awareness-raising course

Among sectors that lack sufficient personnel, business owners in the nursing and construction sectors who face an issue in implementing improvement measures for employment management were offered consultation support, with the aim of promoting practical employment management improvement within the entire industry, or within regional network communities composed of business owners who are actively engaged in improving employment management.

7. Regional employment development fund
[Fiscal 2016 budget: ¥3.32 billion]

To create and provide stable regional employment, employers who build or establish an office in regions, etc. where employment opportunities are particularly lacking and who also employ regional job seekers are offered regional employment development funding in accordance with the cost of their establishment and

the number of workers they employ.

8. Project for employment creation in strategic industries

[Fiscal 2016 budget: ¥9.94 billion]

To promote initiatives aimed at creating favorable and stable employment opportunities, a project for employment creation was launched for manufacturing industries and other strategic industries. The project will supplement regional projects for voluntary employment creation, and will be implemented in conjunction with industrial policies.

9. Extension of the tax system to promote employment

[Taxation scheme]

A tax measure was implemented that provides corporate entities satisfying a certain set of requirements a tax credit of ¥400,000 for each additional employee, where they have created high-quality employment (full-time, indefinite-term employment) in regions where employment opportunities had been lacking (approved employment development promotion regions pursuant to the Act on Promotion of Job Opportunities in Certain Regions) in each fiscal year starting between April 1, 2016 and March 31, 2018.

10. Promotion of employment shifts with no loss of employment

[Fiscal 2016 budget: ¥13.2 billion]

Funds to assist workers seeking alternative employment (re-employment assistance payments) were provided to business owners commissioned as private-sector employment agencies to support the reemployment of employees who unavoidably lose their jobs due to business downsizing, etc.

Funds to assist workers seeking alternative employment (human resource acceptance and development assistance payments) were provided to business owners who have employed workers who fall under a re-employment support plan within three months of their leaving their previous employment as indefinite-term workers, or who have provided training to such workers after employment them.

Furthermore, to ensure steady employment opportunities to workers over the age of 65, funds to assist workers seeking alternative employment (career realization assistance subsidy) were provided to enterprises that offer continued employment even after the age of 65, where they have accepted workers who have transferred from a different company to voluntarily seek a career change, or have provided training to such workers who have transferred from a different company.

11. Welfare Worker Recruitment Project

[Fiscal 2016 budget: ¥1.68 billion]

To ensure a stable supply of high-quality personnel capable of supporting services in the welfare sector (nursing, healthcare and day care), support was provided through services such as in-depth vocational counseling, job placements and counseling and advice for employers, to be provided mainly at a “Welfare Worker Corner” set up in key “Hello Work” centers throughout the country.

12. Promotion of the Youth Support Project

[Fiscal 2016 budget: Included in ¥720 million]

SMEs that display a positive attitude toward recruiting and developing young workers and actively publicize information about their company were designated as “youth support companies” and encouraged in their effort to disseminate information.

13. “Youth Yell” certification system based on the Act on Promotion of Youth Employment

[Fiscal 2016 budget: Included in ¥720 million]

Based on the Act on Promotion of Youth Employment (1970 Act no. 98), the Minister of Health, Labour and Welfare certifies SMEs that display outstanding employment and management of youths as “youth yell” certification enterprises. By encouraging the information dissemination efforts of SMEs, the system supports the smooth employment of human resources sought by certified enterprises.

14. Subsidy for employment and retention of non-new graduates within three years after graduation

[Fiscal 2016 budget: ¥510 million]

To expand, establish and promote employment application opportunities among non-new graduates and dropouts as new graduates, a “subsidy for employment and retention of non-new graduates within three years after graduation, etc.” was provided to business owners who newly offered job openings to non-new graduates or recruited non-new graduates as new graduates and retained them for a certain period of time.

15. Support for SMEs and micro-businesses in raising the minimum wage

[Fiscal 2016 budget: ¥1.1 billion]

The following support measures were provided to increase the productivity of SMEs and micro-businesses, toward raising the minimum wage.

- (1) “Comprehensive Minimum Wage Advice and Assistance Centers” were established throughout Japan (47 locations) as a one-stop portal for consultation on management reforms and work condition management, and provided consultation and dispatched experts free of charge.

- (2) Subsidies were provided to industry-specific SME organizations to cover the cost (up to ¥20 million) they required to implement initiatives for increasing productivity, such as by conducting market surveys and developing new business models for expanding their market with an eye to increasing wages.

- (3) Subsidies were provided to SMEs and micro-businesses in 47 nationwide prefectures, to cover part of the capital investment they made to increase labor productivity and increase the wages of workers who work for less than ¥1,000 an hour in their business establishments by ¥60 (subsidy rate of 1/2 (3/4 for micro businesses with a workforce of 30 or less)). After the fiscal 2016 second supplementary budget, the subsidy mentioned in (2) above was expanded to include prefecture-level SME organizations within its scope, and the scope and rate of the subsidy mentioned in (3) were also expanded. (Ongoing)

16. Dissemination and promotion of career consulting services

The utilization of career consulting (offering advice and guidance in response to consultations concerning occupational selection by workers, occupational life planning, or the development and improvement of occupational capacities) is being disseminated and promoted in private employment agencies, employment support organizations, personnel management and human resource development departments in companies, and career education in schools. In April 2016, career consultants, who engage in career consulting as a specialty, were designated as a national qualification, and the introduction of a “self career examination” was promoted among enterprises as a scheme for offering regular career consultation opportunities at certain junctions of their employees, such as age, number of years in employment, promotion to a post, etc., to support employee awareness of career development.

Chapter 3 Facilitating business activities contributing to regional economies

Goals of the Basic Plan for the Promotion of Small Enterprises (3)

- (3) Facilitate business activities contributing to regional economies
 - Increasing the public awareness of certain regions to create brands so as to invigorate regional economies -

Boosting the vitality of small enterprises that conduct business rooted in their local communities requires not only support to individual proprietors, but also efforts to invigorate the entire region. At the same time, there is also the aspect of bringing renews vitality to the region by invigorating the business of small enterprises. So promoting small enterprises and invigorating the regional economy are like two sides of the same coin. To maintain and bring vitality to regional communities with diverse functions, it is important to bring forth the attraction of the region, grasp the potential of the entire region with creative thought and approaches, and make a broad internal and external appeal to the attraction of the region. This advances regional branding and invigorates regional economies. Forming appropriate ties with the concerned national ministries and agencies and regional public bodies and other institutions makes these efforts more effective.

Through these efforts, advance sustainable regional development together with small enterprises.

Section 1 Utilization of local resources

1. Certification of management development support plans based on the Small Business Support Act

For the nationwide development of a framework for community-based support of micro businesses by nationwide societies and chambers of commerce and industry in cooperation with local governments and financial institutions based on the Small Business Support Act, by the fourth certification a cumulative total of 1,127 management development support plans formulated by societies and chambers of commerce and industry have been certified (1,303 societies and chambers of commerce and industry).

2. Micro business promotion program [Fiscal 2016 budget: Included in ¥5.15 billion]

Support for micro businesses was promoted through the “accompaniment” style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Revised Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro businesses (no. of undertakings selected: 659).

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers of commerce and industry cooperated with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets (survey & research businesses: 61; production businesses: 86 (first year) and 24 (second year)). (Cited earlier)

3. Program for supporting hometown specialty products [Fiscal 2016 budget: ¥1 billion]

Support was provided to SMEs and micro-businesses that engage in the development of new products and services and the development of new markets by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses. Support was also provided to businesses that pursue product development by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses in the form of information provision concerning consumer preferences surveyed by general incorporated associations and matching services.

4. JAPAN Brand Development Assistance Program [Fiscal 2016 budget: Included in ¥1 billion]

To facilitate overseas expansion by SMEs, support was provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and participation in overseas trade fairs. (Cited earlier)

5. Designation of traditional crafts

Under the Act on the Promotion of Traditional Craft Industries (referred to hereinafter as the Traditional Craft Industries Act), the three traditional craft products listed below were designated following surveys and investigations of craft products for which traditional craft product status has been requested, subject to the views of the Industrial Structure Council.
 - Aichi Prefecture “Owari Butsugu” (Buddhist altar fittings), Nagasaki Prefecture “Nagasaki Bekko” (tortoiseshell products) and Okinawa Prefecture “Haebaruhanaori” (textile) designated on 26 January 2017.

6. Traditional Craft Product Subsidy Program **[Fiscal 2016 budget: ¥1.25 billion]**

Based on the Traditional Craft Industries Act, the following support was provided to promote the traditional crafts industries below.

- 1) Subsidization of the following programs undertaken by local manufacturing cooperatives and associations:
 - Successor training programs
 - Raw materials sourcing programs
 - Design development programs
 - Partnership development programs
 - Local producer programs, etc.
- 2) Subsidization of the following programs undertaken by general incorporated associations and incorporated foundations under Article 23 of the Traditional Craft Industries Act:
 - Programs to secure human resources and ensure transmission of skills and techniques
 - Production district guidance programs
 - Promotional programs
 - Demand development programs, etc.

Additionally, to promote local brands of traditional crafts by attracting tourists to the production regions of traditional crafts and helping to cultivate markets overseas, support was provided for initiatives to invite designers and other relevant external personnel to traditional craft production regions.

7. Program to promote the spread of traditional crafts

To promote public awareness of traditional crafts, November every year has been designated Traditional Crafts Month, and activities such as the national convention of the Traditional Crafts Month National Assembly are held to spread and increase awareness of traditional crafts. In fiscal 2016, the national convention was held in Fukui prefecture.

Section 2 Revitalization of shopping districts and city centers

1. Comprehensive support for the revitalization of local shopping districts

Pursuant to the Local Shopping District Revitalization Act, support measures were established for shopping districts with a government-approved revitalization project plan.

2. Development of human resources by the Japan Shopping District Support Center

Support was provided in the form of personnel training and transfer of expertise by the Japan Shopping District Support Center, an organization established jointly by four SME associations.

3. Program to support the operation of Councils for the Revitalization of Central Urban Districts

[Included in SMRJ subsidy program]

Support was provided for the provision of advisory services, provision of information via websites and e-mail newsletters, and development of networks through organization of exchange events led by councils for the revitalization of city centers support centers established in the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) to assist the establishment and operation of such councils for the revitalization of city centers. In fiscal 2016 (as of the end of January 2017), the councils received 358 cases of consultation.

4. Program to dispatch advisers for city center and shopping district revitalization

[Included in SMRJ subsidy program]

Experts in a range of fields related to commercial revitalization registered with SMRJ were dispatched to help tackle various challenges faced by councils for the revitalization of city centers and shopping districts. In fiscal 2016 (as of the end of January 2017), experts were dispatched to 29 regions.

5. Consultation and support for commercial revitalization in city centers

[Included in SMRJ subsidy program]

In order to assist commercial revitalization initiatives being undertaken in city centers by councils for the revitalization of city centers and similar organizations, seminar planning support and instructors was supplied and advice, analyses, assistance with identification of issues, and information, etc. were provided to raise the efficacy of individual projects using the SMRJ's specialist know-how. In fiscal 2016 (as of the end of January 2017), seminars were held in 16 regions, and expert advice was provided in 19 regions.

6. Enterprise vitality enhancement funding

[Fiscal investment and loan program]

Japan Finance Corporation (JFC) provided loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors.

In fiscal 2016 (as of the end of January 2017), loans worth ¥95.2 billion were provided to 11,510 undertakings. (Cited earlier)

7. Program to support the promotion of inbound visitors to shopping districts and town centers

[Fiscal 2015 supplement budget: ¥1 billion]

Support was provided to initiatives for developing an environment conducive to attracting the shopping demand of foreign tourists to shopping districts, etc. In fiscal 2016, 43 initiatives were adopted by the program to support the promotion of inbound visitors

to shopping districts, and 6 initiatives were adopted by the program for revitalization of city centers.

8. Program to support commercial revitalization in local communities and town centers

[Fiscal 2016 budget: ¥2.03 billion]

Support was provided to initiatives such as for providing childcare and elderly care services in shopping districts, attracting businesses to vacant stores, and developing commercial complex in city centers. In fiscal 2016, 41 survey and analysis projects and 28 support projects were adopted by the program for promoting commercial independence in local communities; and 3 survey projects, 3 pioneering demonstration projects and 15 projects for supporting the utilization of specialist personnel were adopted by the program for strategic reconstruction of city center.

9. Taxation measures to revitalize central urban districts

[Taxation scheme]

Under the “Specific private sector central urban district economic activity improvement program” set up under the revisions to the Act on the Vitalization of City Centers, (1) a special depreciation of 30% over 5 years was provided for the acquisition of a building and any incidental structures or equipment, and (2) a measure for the acquisition of an immovable property was taken that halves the registration and license tax payable when ownership of that immovable property is registered or a transfer is registered.

10. Support for increasing the ability of shopping districts and town centers to attract customers

[Fiscal 2016 supplementary budget: ¥1.5 billion]

Support was provided to projects that lead to the development of a medium to long-term growth foundation in shopping districts and city centers, such as projects for developing facilities that capture foreign tourist demand, and projects for introducing high-security IC point cards to stimulate consumer spending in shopping districts. (New)

Section 3 Other regional revitalization measures

1. Support to encourage enterprises to locate in regional areas

Support was provided for action by regions to attract enterprises using their local features and to revitalize local industries under the Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc. (Act No. 40, 2007). Special provisions were stipulated under the

Factory Location Act, a low-interest loan program operated through JFC was offered to SMEs, and tax allocations were provided to local governments taking steps to attract enterprises to their regions. Additionally, as the law stipulates a review of its status of enforcement within ten years of its enforcement and the implementation of necessary measures based on the result of the review, a meeting of a regional economy and industry committee of the Industrial Structure Council was held to begin discussions toward a review of the law.

2. Subsidies for business generating regional economic activity

[Fiscal 2016 budget: ¥1.61 billion]

To support the startup of region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) through the collaboration of industry, academia, financial institutions and government, subsidies were granted to cover part of the cost of subsidies provided by local public organizations for expenditure required by private sector businesses at the business establishment phase.

Additionally, from fiscal 2016, a next-generation collaborative startup support program was established, which supports the startup of businesses that utilize ideas from local high school students and other young people who bear the future of their region, so that the future generation could feel greater affinity to their region and become an integral part of their local community.

3. Taxation scheme to strengthen the regional location of enterprises

[Taxation scheme]

In order to revitalize the regions, it is necessary to correct the over-concentration of population and industry in Tokyo and create good quality employment in the regions. Toward this end, enterprises were encouraged to relocate their head office functions (offices, laboratories and training centers) from Tokyo to the regions or to expand their business in the regions, by giving certified enterprises a choice of either a 15% special depreciation deduction on the cost of acquisition of an office building (25% in the case of relocation) or a 4% tax credit on the cost of acquisition (7% in the case of relocation), and offering enterprises that create employment in the region a special measure under the taxation scheme to promote employment and a local tax grant related to strengthening regional corporate centers. The fiscal 2016 tax reform made it possible for the taxation scheme to promote employment to be applied in combination with the tax credit that is offered in cases where payments

of employee salaries, etc. have increased, upon taking certain adjustment measures.

4. Program for creation and support of regional core enterprises

[Fiscal 2016 budget: ¥2.05 billion]

To support the initiatives of potential regional core enterprises to foray into new sectors or businesses and promote their growth, support was provided for the creation of nationwide networks with external resources (universities, cooperating enterprises, financial institutions, etc.) using support personnel. Additionally, for further growth of regional core enterprises, support personnel provided hands-on support for formulating business strategies, cultivating markets, and other such business activities. Furthermore, a Global Network Council was established, composed of global coordinators who are experts in businesses that are suitable for the global market, to support the formulation of business strategies and the cultivation of markets with an eye to the global market.

5. Promotion of initiatives for the creation of regional core city spheres

[Fiscal 2016 budget: Included in ¥130 million]

Projects to support the creation of regional core city spheres were commissioned under national expenditure, and regional fiscal measures were applied to core cities and municipalities that have formulated a regional core city sphere vision, to support initiatives that contribute to driving economic growth in the sphere as a whole, consolidating and strengthening high-level city functions, and improving lifestyle-related functions and services. As of the end of January 2017, regional core city spheres have been created in 17 regions.

6. Loan program for supporting regional core enterprises

[Fiscal 2016 budget: ¥7 billion from the fiscal investment and loan program]

Medium enterprises and SMEs that are core regional presences having a certain influence on their regional economy were supported in their initiatives to achieve innovation such as by advancing into a new sector or making strategic initiatives for management improvement. Under a loan program for supporting regional core enterprises, the Shoko Chukin Bank provided long-term, lump-sum repayment and successful interest payment-type loans to such enterprises. In fiscal 2016, loans were provided to 48 enterprises, worth a total of ¥5.4 billion (as of the end of January 2017).

7. Taxation scheme for expanding the tax-free system to foreign tourists visiting the regions
[Taxation scheme]

The tax-free system for foreign tourists was expanded under the fiscal 2016 tax reform. The minimum purchase amount for tax-free sales was lowered, and where a large-scale retail store is located within a shopping district and is a member of the shopping district, a measure was provided that allows a tax-free desk to be installed for the large-scale retail store and the shopping district as a single designated commercial facility.

8. Loan system for supporting regional collaborations

[Fiscal 2016 budget: ¥3 billion from the fiscal investment and loan program]

Business cooperative associations and enterprise partnerships that utilize local resources were provided loans to develop a new business, utilize local resources, form a business tie-up or restructure their organization, through a loan system that provides long-term, lump-sum repayment and successful interest payment-type loans via the Shoko Chukin Bank. In fiscal 2016, 26 loans were provided, worth ¥2.2 billion (as of the end of January 2017).

9. Program for the formulation of regional advancement plans using tourist resources, etc.

To advance the regional tourist industry, efforts have been made to formulate specific visions if tourist sites and master plans that include a business model, and to formulate plans for bringing excitement to cities centered on stadiums and arenas.

10. Support program for increasing unit consumption price in globalizing regions

[Fiscal 2015 supplement budget: ¥100 million]

Support was provided to initiatives that aim to integrate regional commercial and service industries as a means for exploring and testing new services that accommodate the preferences of foreign tourists who are hoped to visit and spend money in the regions, and for creating a unified cityscape (service-scape) that would stimulate their consumption.

Chapter 4 Developing a system for supporting micro businesses through community-wide collective efforts

Goals of the Basic Plan for the Promotion of Small Enterprises (4)

- (4) Developing a system for supporting micro businesses through community-wide collective efforts
- Providing meticulous measures to address challenges that business operators are facing -

It requires great efforts for small enterprises to maintain employment and just remain in business amid population decline and other structural changes.

Considering these conditions, it is most important for various support agencies to approach assistance by taking the viewpoint of small enterprises and providing highly refined and thorough help while moving forward together. In providing support, it is also essential to provide assistance on an ongoing basis, not just temporary aid. Furthermore, it is very important to link the government, regional government bodies and support agencies to develop new domestic and foreign demand, so small enterprises seeking to go beyond their prior markets can accurately project demand and gain new customers.

To effectively provide such support, the government will aim at constructing a support system that resolves the issues facing small enterprises and generates results by uniting all efforts of communities.

Section 1 Strengthening management support frameworks

1. Micro business promotion program

[Fiscal 2016 budget: Included in ¥5.15 billion]

Support for micro businesses was promoted through the “accompaniment” style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Revised Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro businesses (no. of undertakings selected: 659).

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers of commerce and industry cooperated with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets (survey & research businesses: 61; production businesses: 86 (first year) and 24 (second year)). (Cited earlier)

2. Programs promoting measures to support cooperative SME organizations

[Fiscal 2016 budget: ¥680 million]

Where partnerships or other associations work on management innovation and/or reforms through the National Federation of Small Business Associations, which is a dedicated agency assisting cooperative SME organizations, support was provided that includes partial subsidies for the costs of implementing those innovations or reforms, along with training for instructors. Support was also provided for optimizing the activities of associations (supervision organizations) that engage in the training of foreign intern trainees.

3. Support for capital investment through advancement programs integrated with business support

Where SMEs work jointly to establish business cooperatives in order to shore up their administrative platforms and improve their business environment, the SMRJ and prefectural governments collaborated to provide diagnoses and advice on business plans together with long-term, low-interest (or interest-free) loans to fund the required capital expenditure.

4. One-stop comprehensive support programs for SMEs and micro-businesses

[Fiscal 2016 budget: ¥5.47 billion]

“Yorozu support centers” have been set up in each prefecture as one-stop consultation centers for SMEs and micro-businesses facing various management issues, to provide professional detailed advice and to dispatch specialist advisors to deal with particularly advanced and specific management issues. (From the commencement of the program to December 2016, the centers have responded to some 478,000 consultations.)

5. Promoting the utilization of local benchmarks

To promote the utilization of local benchmarks, a stipulation for SMEs to utilize local benchmarks when preparing a certification application form was included in the basic policy based on the Act on Strengthening the Management of SMEs, etc. (2016 Act no. 58), and information sessions were held for nationwide commerce and industry organizations and regional financial institutions. Additionally, case studies on the utilization of local benchmarks by financial institutions and support organizations were introduced, and discussions were held regarding the enhancement and review of local benchmark analysis methods in the Local Benchmark Utilization Strategy Conference that was established in April 2016.

Chapter 5 Other policies for promotion of micro businesses

Section 1 Support for SMEs and micro-businesses in disaster-affected regions

1. Loan ceilings and lowering of interest rates on Managerial Improvement Loans (Marukei loans) and Managerial Improvement Loans for Environmental Health Business Loans (Eikei loans)

[Fiscal investment and loan program]

The loan ceilings for unsecured, unguaranteed and low-interest Marukei and Eikei loans provided by the JFC to micro businesses affected directly or indirectly by the Great East Japan Earthquake or the 2016 Kumamoto Earthquake were raised continually and interest rates were lowered. A total of 503 Marukei loans worth ¥1.68 billion and 4 Eikei loans worth ¥7 million were provided to businesses affected by the Great East Japan Earthquake (as of the end of January 2017), and a total of 38 Marukei loans worth ¥157 million were provided to businesses affected by the 2016 Kumamoto Earthquake (there was no provision of Eikei loans) (as of the end of January 2017).

2. Finance policy program

[Fiscal 2016 budget: Included in ¥15.7 billion]

[Fiscal investment and loan program]

There has been ongoing provision of the Great East Japan Earthquake Recovery Special Loan Program and the 2016 Kumamoto Earthquake Special Loan Program (commenced in June 2016) by the Japan Finance Corporation (JFC) (SME Unit and Micro Business and Individual Unit) and the Shoko Chukin Bank to assist SMEs and micro-businesses affected by the Great East Japan Earthquake and Kumamoto Earthquake with their cash-flow issues.

Between the start of the program's operation and the end of December 2016, the Great East Japan Earthquake Recovery Special Loan provided a total of approx. 297,000 loans with a total value of approx. ¥6.0357 trillion, and the 2016 Kumamoto Special Loan Program provided a total of approx. 12,000 loans with a total value of approx. ¥165 billion. Those measures that were created in the wake of the Great East Japan Earthquake in fiscal 2011 (measures as of 22 August 2011) for implementation by prefectural level foundations and similar institutions to effectively eliminate the burden of interest payments on loans received by SMEs and micro-businesses with business establishments located in restricted areas or similar zones when they were imposed following the nuclear accident in Fukushima, and for SMEs and micro-businesses with business establishments and

other assets that were completely destroyed or swept away by the earthquake or tsunami, were continued in fiscal 2016.

3. Credit guarantee program

[Fiscal 2016 supplementary budget: Included in ¥18.4 billion]

To assist SMEs and other businesses affected by the Great East Japan Earthquake, a new guarantee system was established in fiscal 2011 as a separate framework from existing ordinary guarantees, disaster-related guarantees and safety net guarantees. The system continued to be implemented in fiscal 2015 in specific disaster affected areas (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). Between the start of this program's operation on 23 May 2011 and the end of December 2016, a total of 129,773 loans were made with a total value of ¥2.6361 trillion.

In the wake of the Kumamoto Earthquake that occurred in April 2016, Safety-net Guarantee No. 4 was applied to all areas of Kyushu (sequentially from April 14, 2016), and disaster-related guarantees were also applied to all areas of Kumamoto prefecture (from April 26, 2016).

The two programs made guarantee commitments on 6,538 loans with a total value of ¥106.7 billion

4. “Special Finance for Small and Medium Enterprises in the Specified Area” affected by the nuclear disaster

In order to assist SMEs and other businesses that have offices in regions affected by the nuclear power plant accident, long-term, interest-free, unsecured loans were offered to provide business funds (working capital and capital expenditure) required to continue or resume business in Fukushima prefecture.

5. Business revival assistance from Industrial Recovery Consultation Centers and Industry Reconstruction Corporations

[Fiscal 2016 budget: ¥2.56 billion]

In fiscal 2011, support for the revival of SMEs damaged by the Great East Japan Earthquake was enhanced by strengthening the SME Revitalization Support Councils and establishing Industrial Recovery Consultation Centers in the affected prefectures, and by establishing Industry Reconstruction Corporations to buy receivables, etc. In fiscal 2016, a permanent office was established in Iwaki City, Fukushima prefecture to enhance the framework for handling consultations from business owners. Up to 28 February 2017, 5,594 consultations from business

owners have been handled by Industrial Recovery Consultation Centers in each prefecture, including 5,481 consultations that were carried through to completion. A key achievement was the 1,029 cases where organizations such as financial institutions agreed to provide financial support, including 333 cases of debt-factoring.

6. Business revival assistance from the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake

To cope with the overlapping debt problems of earthquake-affected businesses, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake provided assistance such as helping to relieve the repayment burdens for existing debts. Since it began operating on 5 March 2012, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake has so far received 2,502 consultations and in 687 of those cases has decided to support business owners to revive their businesses through measures such as debt-factoring (as of the end of February 2017). Furthermore, on December 20, 2016, the decision-making term for providing assistance was extended by a year, until February 22, 2018, with the approval of the competent minister, under the Act on the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake.

7. Reduction of interest burden during assessment of the potential for business regeneration

This program supports the early business revival of SMEs and micro-businesses that have suffered damage in the Great East Japan Earthquake or the nuclear power plant accident in Fukushima, by reducing the interest burden of those who work with an Industrial Recovery Consultation Center to rebuild their business. More specifically, it defrays the cost of interest that such businesses incur during the period they receive assistance from an Industrial Recovery Consultation Center to formulate a regeneration plan. The program was established in fiscal 2011 and was implemented ongoingly in fiscal 2016.

8. Lease subsidy program to support SMEs in disaster-affected areas

In order to reduce the burden of overlapping debt borne by disaster-affected SMEs, SMEs burdened with lease obligations due to leased equipment that was lost during the Great East Japan Earthquake are provided with subsidies equivalent to 10% of the cost of the new leases to re-install the equipment.

9. Post-disaster recovery project on joint facilities of small and medium business associations, etc.

○ The Great East Japan Earthquake

[Fiscal 2016 budget: ¥29 billion]

In order to promote the restoration and reconstruction of areas affected by the Great East Japan Earthquake, support was provided through the following subsidies:

- (1) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of restoration work on facilities and equipment required for implementation of restoration work planned by groups of SMEs and approved by the prefecture as making an important contribution to the regional economy and maintaining employment; and
- (2) Subsidization by the national government of (one half) the cost of disaster recovery projects such as for Societies of Commerce and Industry and other such instruction and consultation facilities for SMEs, and support recovery of facilities held by groups of disaster-affected SMEs and others.

○ The 2016 Kumamoto Earthquake

[Fiscal 2016 supplementary budget: ¥100.35 billion]

In order to promote the restoration and reconstruction of areas affected by the 2016 Kumamoto Earthquake, support was provided for the recovery of facilities held by groups of disaster-affected SMEs and others through the following subsidies:

- (1) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of restoration work on facilities and equipment required for implementation of restoration work planned by groups of SMEs and approved by the prefecture as making an important contribution to the regional economy and maintaining employment;
- (2) Subsidization by the national government of (one half) the cost of disaster recovery projects such as for Societies of Commerce and Industry and other such instruction and consultation facilities for SMEs, and support recovery of facilities held by groups of disaster-affected SMEs and others;
- (3) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of projects for recovering joint facilities by business cooperatives and associations, pursuant to the Act on Special Financial Support to Deal with the Designated Disaster of Extreme Severity (1962, Act No. 150); and
- (4) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost required for the elimination and repair of arcades, the repair and rebuilding of joint facilities, and the repair, etc. of facilities such as streetlights,

in shopping districts.

*Subsidies (1) and (2) will continue to be offered in fiscal 2017, by carrying over the fiscal 2018 budget.

10. Projects for maintenance of temporary factories and storefronts

[Fiscal 2016 budget: Included in ¥830 million]

So that SMEs affected by the Great East Japan Earthquake can resume business as quickly as possible, the SMRJ provided temporary factories and storefronts and essentially cost-free loans were provided to business owners via local governments. As of the end of January 2017, the construction of facilities has been completed at 588 locations in 52 municipalities in six prefectures. Additionally, from April 2014, subsidies have begun to be provided for costs required for the construction, relocation and removal of temporary facilities, and 38 projects have been subsidized under this program as of the end of January 2017.

11. Loans for restoration and development of facilities and equipment

○ The Great East Japan Earthquake

Loans were provided by the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) in cooperation with the prefectures to provide funds needed for the repair and development of the facilities and equipment required for the implementation of prefecture approved restoration plans by SMEs that suffered damage caused by the Great East Japan Earthquake.

○ The 2016 Kumamoto Earthquake

Loans were provided by SMRJ in cooperation with the prefectures to provide funds needed for the repair and development of the facilities and equipment required for the implementation of prefecture approved restoration plans by SMEs that suffered damage caused by the 2016 Kumamoto Earthquake.

12. Program to create employment that promotes business recovery

[Fiscal 2016 budget: ¥4.06 billion]

In order to create stable employment in disaster affected areas, support was provided in the area of employment in accord with industrial policies.

13. Establishment of special help desks

Special help desks were set up at offices of the JFC, the Shoko Chukin Bank, credit guarantee corporations, chambers of commerce and industry, federations of societies of commerce and industry, federations of small business associations, branches of the SMRJ, and Bureaus of Economy, Trade and Industry nationwide to provide business and financial advice to SMEs and other enterprises affected by the

Great East Japan Earthquake.

14. Navigation dial for SME phone consultations

To help SMEs that do not know where to go for advice, a “Navi Dial for SME phone consultations” help line with a single number was provided that connects callers to their nearest Bureau of Economy, Trade, and Industry.

15. Consideration for SMEs in disaster-affected regions by the government and other public agencies

[Fiscal 2016 budget: ¥990 million]

A written request under the name of the Director-General of the Small and Medium Enterprise Agency was issued to all prefectures dated April 27, to give consideration to SMEs and micro-businesses in areas affected by the 2016 Kumamoto Earthquake with regard to orders from the public sector, and the request was subsequently included in the “Basic Policy on State Contracts with Small and Medium Enterprises,” which is formulated each fiscal year. Continued consideration was also given to SMEs and micro-businesses in areas affected by the Great East Japan Earthquake under the Basic Policy and widely disseminated.

16. Victims’ Employment Development Subsidy Program

[Fiscal 2016 budget: ¥220 million]

Subsidies were provided employers who hire workers who lost their jobs due to the Great East Japan Earthquake and job seekers living in affected areas as a result of referrals from “Hello Work” employment offices and similar agencies, provided that such workers are expected to be employed continuously for a period of at least one year. Bonus subsidies were additionally provided to employers hiring 10 or more such workers.

17. Guidance and advice on measuring radiation levels

[Fiscal 2016 budget: ¥30 million]

The review and lifting of the evacuation order in areas designated as evacuation zones after the Great East Japan Earthquake is hereafter expected to be accompanied by the recommencement of business by enterprises that were affected by the disaster and promote the siting of enterprises in the affected areas. In anticipation of this development, radiation measurements of industrial products were carried out, the types and amounts of radioactive substances were measured and inspected, and guidance and advice were provided, as countermeasures against harmful rumors.

18. Industry-academia-government collaboration

support project for Fukushima Prefecture, etc.
[Fiscal 2016 budget: ¥100 million]

In Fukushima and Miyagi Prefectures, where harmful rumors stemming from the Great East Japan Earthquake and nuclear disaster are still in effect, product development and market cultivation efforts were promoted by providing opportunities for collaboration between disaster-affected enterprises and universities, public research institutions or major companies, and assisting in the development of trial products.

19. Program for employment support in response to the nuclear disaster

[Fiscal 2016 budget: ¥4.24 billion]

A program was implemented to provide temporary places of employment to people in Fukushima Prefecture who have been affected by the nuclear disaster, to help them stabilize their living situation.

20. Support for employment in response to earthquake disasters, etc.

A program was implemented to provide temporary places of employment to people in earthquake-struck regions to help them stabilize their living situation.

21. Program for disaster recovery, etc. of shopping districts (Shopping district excitement creation program)

[Fiscal 2016 reserve fund: Included in ¥1.1 billion]

Support was provided to cover the cost required by local shopping districts (in Kumamoto prefecture) affected by the 2016 Kumamoto Earthquake to implement projects for recovering the excitement of their shopping districts.

22. Program for promoting regional reconstruction and practical development under the Fukushima Innovation Coast Scheme

[Fiscal 2016 budget: ¥6.97 billion]

Support was provided for the cost of practical development of robot technology and other innovative technologies in the priority areas(*) of the Fukushima Innovation Coast Scheme, which contribute to regional promotion through cooperation with local enterprises. (New)

*Priority areas include the decommissioning of reactors, robots, energy, environment and recycling, agriculture, forestry and fisheries, and medical equipment, among others.

23. Support program for business recovery, etc. by SMEs and micro-businesses

[Fiscal 2016 budget: ¥7.4 billion (fund)]

To provide concentrated support to SMEs in the 12 municipalities that were affected by the nuclear disaster in Fukushima prefecture and thereby create

jobs in the region and promote the early recovery of city functions such as by restoring places for shopping, a subsidy was provided to cover part of the capital investment needed to resume business.

24. Support program for new businesses in regions affected by the nuclear disaster

[Fiscal 2016 supplementary budget: ¥150 million]

A subsidy was provided for capital investment needed to start a new business in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture or transfer a business from outside the 12 municipalities, and initiatives were taken to develop an environment conducive to revitalizing investment, to help the 12 municipalities recover their city functions so that affected enterprises can get back on their feet.

25. Support for securing travel and transportation means needed to receive lifestyle-related services
[Fiscal 2016 budget: ¥140 million]

In the 12 municipalities affected by the nuclear disaster in Fukushima prefecture, support was provided in the form of travel and transportation means so that local stores could make joint deliveries, local residents can receive medical services, etc.

26. Support for securing personnel through a personnel match-up program

[Fiscal 2016 budget: ¥500 million]

Human resources coordinators made a detailed assessment of the personnel needs of businesses in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture, and widely shared these needs with job seekers so that personnel could be acquired from both inside and outside the 12 municipalities throughout a match-up program.

27. B2B match-up program for sixth sector industrialization

[Fiscal 2016 budget: ¥370 million]

A B2B match-up service was provided, to help businesses cultivate new markets and promote the creation of new businesses. In addition to matching businesses with other businesses, an expert also provided guidance regarding the smooth implementation of business after the match-up.

28. Support program for introducing regional traditions, attractions, etc.

[Fiscal 2016 budget: ¥50 million]

To introduce the local attractions, traditional crafts, specialty products (local agricultural, commercial and industrial products), etc. of the 12 municipalities affected by the nuclear disaster in Fukushima prefecture throughout Japan and overseas, support was provided to businesses that planned to participate in a trade fair.

29. Support through individual visits by public-private partnership teams **[Fiscal 2016 budget: ¥8.2 billion (fund)]**

The Fukushima Soso Reconstruction Public-private Partnership Team's framework was strengthened to provide consultation support to businesses in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture. A team composed of counselors, consultants, SME management consultants, and other such experts provided fine-tuned consultation support on issues related to business commencement, business succession, job change, lifestyle reconstruction, etc.

Section 2 Strengthening financial underpinnings

1. Lowering of reduced tax rates

[Taxation scheme]

A measure was taken to lower the rate of corporate tax (19%) incurred on annual income amounts up to ¥8 million to 15%.

2. SME investment promotion tax system

[Taxation scheme]

Under this system, a 30% special depreciation or a 7% tax credit (the tax credit is not offered to corporate entities with a capital of more than ¥30 million) was offered for the price of acquiring machinery or equipment. It also allowed for immediate depreciation or provided a 10% tax credit (7% for corporate entities with a capital of more than ¥30 million) for the acquisition of machinery and equipment that leads to productivity improvement.

3. Special scheme for inclusion of petty sum depreciable assets of SMEs in expenses

[Taxation scheme]

The special provision allowed enterprises that acquired petty sum depreciable assets (worth less than ¥300,000 in acquisition cost) to include the assets in expenses (limited to a total of ¥3 million a year) (with the exception of enterprises with more than 1,000 employees).

4. Carryover and refund carryback of loss

[Taxation scheme]

The carryover of loss is a scheme that allows loss arising in the current business year to be deducted as a loss carried over from the amount of income in the following and subsequent business years. Under the fiscal 2016 tax reform, the carryover period was decided to be extended to 10 years (from 9 years under the current scheme) from fiscal 2018. The one-year carryback refund allowed losses arising in the current business year to be carried back a year, and a return on corporate tax to be filed.

5. Taxation system for the revitalization of the commercial, service and agriculture/forestry/fishery industries

[Taxation scheme]

The tax measure that allows SMEs in the commercial and service industries that acquire facilities based on advice on business improvement from a chamber of commerce and industry or other such institution to receive a 30% special depreciation deduction from the cost of acquisition or a 7% tax credit was continued (the tax credit is offered only to corporate entities with a capital of no more than ¥30 million).

6. Special exemption from inclusion in charges against revenue of entertainment and social expenses, etc.

[Taxation scheme]

The selective application of (1) the measure that permits entertainment and social expenses to be included in charges against revenue up to the fixed deduction amount (¥8 million) or (2) the measure that allows 50% of food and drink expenses to be included in charges against revenue was offered.

7. Investment by Small and Medium Business Investment and Consultation Co., Ltd.

In order to help enhance SMEs' capital adequacy and contribute to their sound growth and development, the Small and Medium Business Investment and Consultation Co., Ltd. operated a number of programs to assist in SME development. These include business consultations, assistance with business successions and investment programs involving the underwriting of shares, share warrants and corporate bonds with subscription warrants.

Section 3 Measures for proper transaction prices and pass-throughs of consumption tax

1. Improvement of the transaction conditions of SME subcontractors

To widely improve the transaction conditions of SME subcontractors, the Liaison Council of Ministries and Agencies Concerned with the Improvement of the Transaction Conditions of SME Subcontractors was established in December 2015. Thereafter, a large-scale survey and detailed interviews that were held on both large enterprises and SMEs revealed various issues, including the imposition of the storage cost of molds and payments by promissory notes. Thus, on September 15, 2016, "Policies for future-oriented trade practices" were announced as a countermeasure package. Based on this package, the enforcement of

relevant laws and regulations was strengthened on December 14, 2016, by reviewing the notification regarding promotion standards and the payment of subcontract fees under the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises (hereinafter, Act on the Promotion of Subcontracting), and cooperating with the Fair Trade Commission in revising the operational standards of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (hereinafter, Subcontract Payment Act). Based on the amendment of standards, etc., 12 organizations in 7 industries took action to formulate a voluntary action plan. Additionally, the Guidelines for the Promotion of Fair Subcontracting Practices (hereinafter, Fair Subcontracting Guidelines) were revised, to include best practices related to cooperation and coordination between principal contractors and subcontractors.

2. Stricter enforcement of the Subcontractor Payment Act

[Fiscal 2016 budget: Included in ¥990 million]

On December 14, 2016, the notification regarding the payment means of subcontract fees was revised, and the operating standards of the Subcontractor Payment Act was revised in cooperation with the Fair Trade Commission, to strengthen legal enforcement of subcontractor payments. The Ministry of Trade, Economy and Industry and Fair Trade Commission jointly issued a statement calling for a thorough dissemination of the revised operating standards and the establishment of internal frameworks for ensuring legal compliance to approximately 870 industrial organizations (date Dec. 20, 2016) and approximately 210,000 principal contractors (dated Jan. 6, 2017), along with the notification on promotional standards and payment means of subcontract fees under the Act on the Promotion of Subcontracting that was revised on the same day.

To ensure fair treatment of subcontractors and protect their incomes, the Fair Trade Commission (FTC) and SME Agency collaborated closely in enforcing the Subcontractor Payment Act. The FTC and SME Agency encouraged rigorous compliance with the Act, by carrying out a written survey of principal contractors, and by collecting information on violations of the Act through an office set up specifically to receive such information and reports. Additionally, during the “Subcontractor Fair Treatment Promotion Month” held in November, rigorous compliance with the Act was again encouraged by conducting special questioning.

3. Strengthening consultation systems and fair subcontracting transactions

[Fiscal 2016 budget: Included in ¥990 million]

Consultation services concerning SME transactions

were provided by the 48 Subcontracting Help Centers set up throughout Japan. To prevent the occurrence of violations of the Subcontractor Payment Act, seminars were held targeting the procurement managers at principal contractors to further raise awareness of the Subcontractor Payment Act etc., while examples of initiatives by principal contractors were presented around the country and symposiums and other events were held to promote broader adherence to the Subcontractor Payment Act. Information sessions were also held nationwide to disseminate the Fair Subcontracting Guidelines.

4. Self-reliance support for SME and micro subcontractors

[Fiscal 2016 budget: Included in ¥990 million]

Under the Act on the Promotion of Subcontracting, business plans designed to solve issues in collaborations between subcontracting SMEs and micro-businesses that are highly transaction-dependent on principal contractors were certified and supported in the form of subsidies, loans and special exemptions for guarantees. In regions where production centers of principal contractors have closed or downsized (or are slated to close), support in the form of subsidies was provided to subcontracting SMEs and micro-businesses seeking to advance into new fields.

5. Support for market expansion through subcontracting business mediation and business fairs

[Fiscal 2016 budget: Included in ¥990 million]

Using Business Matching Stations (BMS), SMEs looking to solicit new clients were provided with information on orders for contract manufacturing issued and received between enterprises for business such as outsourced manufacturing in the SME’s preferred industry and where the SME can provide the required equipment or technology. As of the end of March 2017, ○○○ companies are registered with the service. Broad-area information sessions were also held at 8 venues to support new market development.

6. Request for consideration toward small and medium subcontractors

[Fiscal 2016 budget: Included in ¥990 million]

On December 14, 2016, the promotional standards based on the Act on the Promotion of Subcontracting were revised. The Ministry of Trade, Economy and Industry and Fair Trade Commission jointly issued a statement calling for a thorough dissemination of the revised operating standards and the establishment of internal frameworks for ensuring legal compliance to approximately 870 industrial organizations (date Dec. 20, 2016) and approximately 210,000 principal contractors (dated Jan. 6, 2017), along with the notification on operating standards and payment

means of subcontract fees under the Subcontract Payment Act that was revised on the same day. Additionally, on December 20, 2016, governmental financial institutions were requested their consideration in providing emphatic responses and timely and appropriate loans so that principal SME contractors who actively engage in the optimization of subcontract transactions do not face serious cash-flow problem.

7. Support for cost negotiations, etc.

[Fiscal 2015 supplementary budget: Included in ¥400 million]

A collection of case studies and handbooks were prepared, and individual guidance sessions and seminars were held to provide managers and sales representatives of SME subcontractors the knowhow of cost negotiation that they need to negotiate costs with the procurement department of principal contractors. Additionally, for each of the industries under the Fair Subcontracting Guidelines, follow-up activities for the Guidelines and initiatives for their dissemination were strengthened.

8. Programs to enhance monitoring and inspection regimes for consumption tax imputation

[Fiscal 2016 budget: ¥3.21 billion]

To ensure that consumption tax is passed through appropriately, “cost pass-through inspectors” were assigned throughout Japan. At the same time, to collect information such as on refusals to pass through the consumption tax, a large-scale written survey was carried out in conjunction with the Fair Trade Commission (FTC) in the effort to monitor and regulate acts of refusal to pass through the consumption tax.

Section 4 Measures for reduced consumption tax rate system

1. Support for the introduction of cash registers and system renovations among SMEs in the retail trade industry

[Fiscal 2015 reserve fund: ¥99.58 billion]

Support was provided to help businesses prepare for the introduction and operation of the reduced consumption tax rate system and prevent confusion. More specifically, (1) support for introducing cash registers that are compatible with multiple tax rates was provided to SMEs in the retail trade industry, and (2) support for system renovations was provided to SMEs in the retail trade and wholesale trade industries that use electronic ordering systems that are not compatible with multiple tax rates.

2. Consultation desks for inquiries regarding the reduced consumption tax rate system

[Fiscal 2015 supplementary budget: ¥17 billion]

Toward the smooth implementation of the reduced consumption tax rate system, detailed support was provided in cooperation with SME organizations, etc. Seminars and forums were held, consultation desks were established, specialists were dispatched to provide itinerary guidance, and such support measures were disseminated via pamphlets and other such media. Support was also provided through the operation of cost pass-through consultation desks.

Section 5 Measures for business stabilization

1. Mutual Relief System for the Prevention of Bankruptcies of SMEs (Mutual Safety-net Relief System)

[Included in SMRJ subsidy program]

The Mutual Relief System for the Prevention of Bankruptcies of SMEs is a system that provides unsecured, unguaranteed, low-interest loans to prevent a chain reaction of bankruptcies when the bankruptcy of a supplier or customer has made it difficult for an enterprise to recover moneys due on account. As of the end of December 2016, 425,000 companies were enrolled in the system, with 38,000 new subscribers in the period from April 2016 to end of December 2016 and new loans totaling ¥4.32 billion.

2. Special Business Stability Consultation Centers

[Fiscal 2016 budget: ¥37 million]

To assist in the resolution of the many and diverse administrative problems of SMEs facing management risks, special business stability advice centers have been established in key chambers of commerce and industry and prefectural federations of societies of commerce and industry across the country. To facilitate management consultations related to business stability in a wide range of business sectors at these centers, support was provided to initiatives such as guidance programs run by the Japan Chamber of Commerce and Industry and the Central Federation of Societies of Commerce and Industry.

3. Promotion of wider adoption of BCPs by SMEs

To support the formulation and operation of BCPs by SMEs and micro-businesses and aim to further disseminate and establish the plans, the support project for strengthening business continuation among SMEs and micro-businesses, which was launched under the fiscal 2014 supplementary budget, was continued as a measure for supporting the formulation and operation of BCPs by SMEs and micro-businesses. Additionally, to enhance the dissemination and support framework, support was given to BCP training and seminars for support managers operated by SME-related bodies. Furthermore, low-interest loans were provided by

the JFC for the establishment of disaster prevention facilities in accordance with BCPs formulated by SMEs and micro-businesses themselves.

4. Relief for damage caused by dumped imports [Fiscal 2016 budget: ¥50 million]

Trade remedy measures include anti-dumping (AD) programs to provide relief to domestic industries impacted by dumped imports to Japan from foreign enterprises, including measures to ensure equitable market competition such as by imposing extra customs duties following a petition by the affected Japanese industry and an investigation by the government. The AD investigation into South Korean and Chinese manufactured potassium hydroxide that was begun in May 2015 was completed in August 2016, and the AD program was implemented. The AD investigation into polyethylene terephthalate with a high degree of polymerization originating in China that was begun in September 2016 is also being pursued fairly and appropriately based on international rules and Japanese laws and regulations. Furthermore, studies were conducted to ensure that investigations are consistent with WTO conventions, and information sessions were held for enterprises.

Section 6 Measures concerning public demand

1. Formulation and dissemination of the “FY 2016 Policy on State Contracts with Small and Medium Enterprises”

[Fiscal 2016 budget: Included in ¥990 million]

On August 2, 2016, Cabinet approval was given on the Basic Policy on State Contracts with Small and Medium Enterprises, which sets 55.1% as the target contract ratio of among SMEs and micro-businesses and calls for roughly doubling the ratio of state contracts with new SMEs over the three years from fiscal 2015 to 2017, compared fiscal 2014 (estimated at around 1%). Measures for increasing opportunities for SMEs to receive orders were also incorporated in the Basic Policy, including a measure to give consideration to SMEs and micro-businesses that were affected by the Kumamoto Earthquake, a measure for the Small and Medium Enterprises Agency to interview agencies with a significantly low rate of contract implementation ratio regarding the improvement initiatives, and a measure for promoting the proper utilization of the system for examination of low bids when local public corporations place an order for services.

The following initiatives were implemented to fully disseminate the Basic Policy.

- (1) The Minister for Economy, Trade and Industry explained the purport of the Basic Policy in writing

to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards (1,818 organizations), and also requested that they make efforts to increase opportunities for SMEs and micro-businesses to receive orders.

- (2) From August to September, 50 information sessions (Councils to Promote Local Access to Public Sector Demand) were held throughout Japan to actively raise awareness of the Basic Policy in regional areas.
- (3) A conference (Councils to Promote Procurement from new SMEs) was organized to discuss policies for information sharing and cooperation regarding initiatives for promoting procurement from new SMEs in regional areas.
- (4) A “Guide to Contracts in the Public Sector” was produced and distributed to central and local government agencies and other commerce and industry-related organizations.

2. Operation of the “Public Demand Information Portal Site” to expand opportunities for SMEs and micro-businesses to receive orders from the public sector

[Fiscal 2016 budget: Included in ¥990 million]

A Public Demand Information Portal Site has been operated that provides SMEs and micro-businesses with one-stop access to order information posted on national government and other local public websites in order to improve access by SMEs and micro-businesses to information on public sector orders.

Section 7 Promotion of human rights awareness

1. Human rights awareness

[Fiscal 2016 budget: ¥190 million]

In order to widely propagate respect for human rights and cultivate awareness of human rights among SMEs and micro-businesses, seminars and other awareness-raising activities were organized. Traveling consultation services and training programs were also offered to revitalize micro businesses in regions or industries where there are particularly large numbers of micro businesses that require concentrated support.

Section 8 Promotion of surveys and public information activities

1. Production of the White Paper on Small and Medium Enterprises in Japan and the White Paper on Small Enterprises

In order to ascertain the current situation of SMEs and the challenges that they face, an annual report (2016 White Paper on Small and Medium Enterprises in Japan) was produced in accordance with the provisions of Article 11 of the Small and Medium-

sized Enterprise Basic Act. Also to ascertain the current situation of small enterprises and the challenges they face, an annual report (2016 White Paper on Small Enterprises) was produced in accordance with the provisions of Article 12 of the Small Enterprises Promotion Act.

2. Publicizing of policy

To publicize SME policy, guidebooks and leaflets summarizing the main points were produced and distributed to local governments, SME support agencies and financial institutions, etc. Further publicity was generated by issuing information via portal site for SME support (Mirasapo) and organizing “One-day SME Agency” events.

(1) Publication of booklets

Guidebooks and leaflets for utilizing SME policies have been produced, including the “Guide to the Use of SME Policy,” which contains an introduction of more than 200 policies. These have been distributed to a wide range of interested parties, including SMEs, local government bodies, SME support agencies (commerce and industry associations, chambers of commerce and industry, etc.), financial institutions, and certified public tax accountants, lawyers, certified public accountants, and SME management consultants who provide support to SMEs.

(2) Organization of “One-day SME Agency” events

Co-hosted by the SME Agency and host prefectures, these events were held both to explain the latest measures to local SMEs and deepen their understanding of the measures. The events also provided a forum for exchanges of ideas and interaction, which contributed to future revisions and improvements in SME policy. These events have been held every year since 1964 and were held in Fukuoka prefecture in fiscal 2016.

(3) Publicity using the Internet

1) Website based publicity

The SME Agency website hosted up-to-date information on SME measures, information on public offerings, and publicity materials such as flyers and booklets. In fiscal 2016, the website received around 35 million page views for the year.

2) E-mail newsletters

The e-mail newsletter was produced in association with SME support agencies and sent out to subscribers every Wednesday. It showcased dynamic SMEs and contained policy information, local updates and information on topics such as surveys and research reports. The e-mail newsletter has roughly 90,000 registered readers (as of the end of December 2016).

(4) “Mirasapo” (portal website for supporting the future of SMEs and micro-businesses)

Through the Mirasapo site, the latest support information, information on how to apply for subsidies, case examples of the utilization of support schemes, etc. were delivered to nationwide SMEs in a timely and easy-to-understand manner. (Membership: 117,000 enterprises; Mirasapo e-mail newsletter subscribers: approx. 88,000 enterprises; as of the end of January 2017).

3. Basic Survey of Small and Medium Enterprises

The Basic Survey of Small and Medium Enterprises was conducted in accordance with the provisions of Article 10 of the Small and Medium-sized Enterprise Basic Act, and provided statistics concerning management and financial information such as SME sales figures and numbers of workers employed by SMEs.

4. Publication of the Survey on SME Business Conditions

The Survey on SME Business Conditions is published quarterly by the SMRJ to ascertain business trends among SMEs.

Chapter 6 Initiatives by industries and area

Section 1 Measures for SMEs in agriculture, forestry and fisheries

1. Promotion of diversification of primary producers into processing and distribution (sixth sector industrialization)

- (1) Subsidy for sixth sector industrialization network activities

[Fiscal 2016 budget: ¥2.03 billion]

Support was provided for initiatives in which agriculture, forestry and fishery businesses create a network to develop new products, cultivate markets and operate facilities for processing and marketing agriculture, forestry and fishery products. Support was also provided for sixth sector industrialization initiatives that are implemented by the entire region in line with sixth sector industrialization strategies and concepts of the municipality.

- (2) Active utilization of the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan

Support was provided through measures such as investment for business activities aimed at sixth sector industrialization by agriculture, forestry and fishery businesses in cooperation with distribution and processing businesses through the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan (A-FIVE).

- (3) Comprehensive measures for the utilization of geographical indications

[Fiscal 2016 budget: ¥170 million]

Support was provided for the registration applications relating to the geographical indication (GI) protection system and for their dissemination and awareness-raising.

Support was also provided for the creation of regional brands and businesses by utilizing GIs, and for strengthening measures against infringements of Japan's agriculture, forestry and fishery products and food products overseas.

- (4) Comprehensive program to promote renewable energy to revitalize rural areas

[Fiscal 2016 budget: ¥100 million]

Growth in regional agricultural, forestry and fishery businesses was promoted by pursuing community-based initiatives to supply renewable energy and to feed the benefits of such initiatives back into local communities.

2. Support for small and medium agricultural, forestry, and fishery businesses

- (1) Wood Industry Upgrading Promotion Fund and Forestry and Wood Industry Improvement Fund [Fiscal 2016 budget: ¥70 billion]

In order to streamline lumber production and distribution, loans were provided through the Wood Industry Upgrading Promotion Fund, while loans through the Wood Industry Improvement Fund were provided to implement measures such as management reforms in the forestry and lumber industries.

- (2) Interest subsidy for the installation of lumber processing facilities

[Fiscal 2016 budget: ¥4 million]

An interest subsidy was provided for borrowings required for the introduction of facilities toward adding value to lumber products and diversifying management, and for dismantling facilities and equipment accompanying the introduction of new facilities.

- (3) Subsidy for Establishment of a Next-generation Forestry Foundation (Subsidy for Establishment of the Foundation for Forest and Forestry Regeneration [Development of lumber processing and distribution facilities])

To create a supply chain for stable and efficient supply in terms of cost, volume and quality, support was provided for the development of lumber processing and distribution facilities needed for the creation of a supply chain.

- (4) Support for reorganization and development of the dairy industry by means of subsidies for building a strong agricultural industry and comprehensive measures for the revitalization of production areas [Fiscal 2016 budget: Included in ¥22.84 billion]

(Objectives of the measure)

To promote a stronger management culture in the SME dairy industry, such as by restructuring and rationalizing dairy plants and enhancing sanitary control, toward contributing to business stabilization among dairy farmers, amid a stagnation in the consumption of milk.

(Overview of the measure)

To reduce the production and selling costs of SMEs in the dairy industry and promote the advancement of sanitary standards, support measures were taken for the additional construction and closing down of dairy plant facilities and for the closing down of dairy plants in cases where it is not accompanied by the construction of new plants.

To promote steady initiatives toward increasing the efficiency of collecting and transporting milk and restructuring the dairy industry, support measures were also taken for assessing and examining regional issues, formulating specific plans, and rationalizing

employees.

(5) Support for strengthening the food quality management framework

To improve the safety of food products and gain the confidence of consumers, financial support was provided for the following initiatives under the Act on Temporary Measures concerning Sophistication of Management of Food Manufacturing Process: (1) Provision of infrastructure and equipment for HACCP introduction; and (2) Provision of infrastructure and equipment for hygiene and product quality control as preliminary steps towards HACCP introduction (advanced platform provision). (Fund for promoting advanced quality control in the food industry)

(6) Comprehensive export support project

[Fiscal 2016 budget: ¥1.48 billion]

(Objectives of the measure)

- To implement initiatives for the promotion of exports in line with the “Strategies for Strengthening the Export Competitiveness of the Agriculture, Forestry and Fishery Industries” (compiled in May 2016 by the Headquarters on Creation of Regional Vitality in Agriculture, Forestry, and Fisheries) through private-public cooperation toward achieving the target of ¥1 trillion in exports by 2019.

(Overview of the measure)

- Through subsidies to JETRO, comprehensive business support was provided for upstream to downstream operations of export businesses.
- Opportunities for direct negotiations between Japanese businesses and overseas buyers were provided by establishing a Japan Pavilion in overseas trade fairs that are held in countries and regions where export is strongly expected to increase in the future.
- Major buyers from overseas were invited to business conventions in Japan to deepen their understanding of the characteristics of Japanese product categories and their safety through onsite inspections of wholesale markets and production regions, to promote effective business talks.
- Marketing bases (in-store shops) for marketing and promoting Japanese products were established in countries and regions where export from Japan is strongly expected to increase in the future, to sell products of Japanese businesses on a test basis and provide feedback of local responses.

(Changes from fiscal 2015)

- Public invitation was widely given to businesses that engage in export, including private sector businesses, to take part in “marketing centers in emerging markets,” which test-market the products of such businesses and provide feedback of local responses, and the centers were established in an increasing number of locations. Additionally, major buyers from overseas were invited to business conventions held in Japan, to deepen their understanding of the

characteristics of Japanese product categories and their safety through onsite inspections of wholesale markets and production regions, to promote effective business talks.

(7) Measures for export businesses

[Fiscal 2016 budget: ¥840 million]

(Objectives of the measure)

- To implement initiatives for the promotion of exports in line with the “Strategies for Strengthening the Export Competitiveness of the Agriculture, Forestry and Fishery Industries” (compiled in May 2016 by the Headquarters on Creation of Regional Vitality in Agriculture, Forestry, and Fisheries) through private-public cooperation toward achieving the target of ¥1 trillion in exports by 2019.

(Overview of the measure)

- Export organizations for each export category including marine products, rice and rice products, flowers, animal products, forestry products (wood) and fruits held examination committees in Japan, conducted overseas market surveys, and implemented initiatives for resolving issues regarding the export environment, with the objective of establishing the Japan brand.
- Organizations that coordinate major export production regions and related business in Japan that handle diverse processed foods, and organizations that coordinate multiple product categories in regional blocks implemented discussion meetings in Japan, overseas market surveys and initiatives for cultivating markets overseas, with the objective of achieving stable supply throughout the year or on a long-term basis.
- To respond to quarantine requirements that are sought by relevant countries and regions, the acquisition and renewal of international certifications, and realize transportation costs in accordance with the export conditions of each item, initiatives were implemented for the development and demonstration of an optimal export model.

(Changes from fiscal 2015)

- Within the initiatives for establishing the Japan brand, the subsidy rate for discussion meetings in Japan was changed from a fixed rate to 1/2, and the subsidy rate for management of category-specific logo marks was changed from a fixed rate to 3/4.

3. Support for R&D and other cross-field activities

(1) Promotion of studies of scientific technologies for the agriculture, forestry, fishery and food industries

[Fiscal 2016 budget: ¥3.2 billion]

To develop the agriculture, forestry, fishery and food industries into growth industries, R&D in those sectors, from the basic to applied stages, were seamlessly promoted through industry-academia collaboration.

(2) Various forms of lending by JFC

Loans were provided for (1) the improvement of the management of designated agricultural processing businesses, (2) the promotion of new applications of designated agricultural, forestry and livestock products or the adoption of new raw material species for processing, (3) the establishment of stable transaction relationships between food manufacturers and agriculture, forestry and fishery businesses and the development of agricultural, forestry and fishery facilities, (4) the improvement of dairy facilities, and (5) the strengthening of the corporate structure of seafood manufacturers.

Section 2 Measures for SMEs in the transport industry

1. Support for the warehousing industry

To meet the need for increasingly sophisticated and diversified physical distribution services and the shortage of truck drivers as a response to changes in the socioeconomic environment, the Law for Integration and Improvement of Physical Distribution was amended, and the development of warehouses that serve both transport and storage functions was promoted, in the effort to save labor and increase efficiency of physical distribution services.

Additionally, to promote low-carbon warehouses, support was provided for the introduction of energy-saving facilities.

2. Interim measures for coastal shipping

In order to ensure the smooth and steady implementation of interim measures for coastal shipping, support was provided by establishing a separate system of government guarantees for the loans required to fund these measures.

3. Measures for small and medium shipbuilders and related manufacturers

[Fiscal 2016 budget: (1) Included in ¥50 million; (2) ¥16 billion (fiscal 2013 budget); (3) Included in ¥640 million; (4) ¥90 million]

- (1) In addition to taking steps to develop a safety net for business stabilization, (1) courses aimed at modernizing management techniques were held in eight locations nationwide, and a health and safety manager training course was also held to help prevent industrial accidents.
- (2) Most of the shipyards and shipbuilders on the Pacific coast of Tohoku suffered devastating damage in the Great East Japan Earthquake. The Ministry of Land, Infrastructure and Transport, in cooperation with the SME Agency and other relevant ministries and agencies, have supported the utilization of various support programs to promote the prompt recovery and reconstruction of local shipbuilding industries that support the fishery industry that is a core industry

in the region. For shipbuilding businesses that face difficulties in resuming operations at the same level as before the earthquake due to ground subsidence, the Subsidy for Projects that Support the Reconstruction of Shipbuilding Businesses, etc. was established in fiscal 2013 to support the development of shipbuilding facilities toward the full-scale reconstruction of the shipbuilding industry through business cooperation and integration. A total of 19 businesses in 8 projects were selected to receive a subsidy (¥11.42 billion in total) by the end of fiscal 2014. As three of those subsidized businesses have been completed by the end of fiscal 2016, support will be provided for the proper implementation of the remaining 5 businesses, toward the prompt reconstruction of the shipbuilding industry in Tohoku. (2) Subsidy for reconstruction assistance projects in the shipbuilding industry

- (3) Subsidies were provided for 34 research and development projects (including 9 involving the participation of SMEs) for marine resource development technologies that contribute to the strategic growth of Japan's maritime industries, world-leading marine environment technologies for reducing CO₂ from vessels, and technologies for productivity improvement in the construction and operation of ships in Japan's maritime industry. (3) Subsidy for R&D for technologies related to the maritime industry
 - (4) Sector-specific guidelines were formulated for the shipbuilding and marine equipment industries based on the Act on Strengthening the Management of SMEs, etc. that was enforced in July 2016, and 31 management improvement plans formulated by SMEs and micro-businesses in line with the guidelines were approved (as of the end of January 2017), so that they can receive tax benefits and other support measures. [Taxation]
 - (5) Trial projects that were launched in fiscal 2015 through the regional cooperation of SME shipbuilding businesses were implemented, including shipyard internships for high school and university students and educational shipbuilding workshops for high school teachers, and a guidance was compiled for strengthening the network between local shipbuilding enterprises and educational institutions. Additionally, as a new initiative, a teaching material was created that presents the attractiveness of the shipbuilding industry to high school students, to strengthen shipbuilding education.
- As an urgent and temporary measure from April 2015 to the end of fiscal 2020, a program for accepting foreign shipbuilding workers was implemented, which allows prospective workers who have completed technical intern training to work for up to three years in the shipbuilding industry. Under this program approximately 1,900 foreign workers worked in the shipbuilding industry as of the end of December 2016.
- (4) Acquisition and development of human resources

in the shipbuilding industry

Section 3 Measures for small and medium building contractors and realtors

1. Support program for revitalization of regional construction industries

[Fiscal 2016 budget: ¥170 million]

To support small, medium-sized and second-tier construction companies and construction-related companies (surveying, construction consultancy and geological surveying businesses) that support local communities such as by improving, maintaining and operating social capital and contributing to disaster prevention and mitigation, revitalization support advisors such as human resource development specialists and SME business consultants provided wide-ranging advice to help resolve management issues and technical issues such as construction management.

For initiatives that provide models for contributing to securing and developing workers and increasing productivity, ongoing support was provided by a team of support specialists for the formulation of a plan and up to the achievement of the goal as a priority measure, and part of the costs incurred during execution of the plan will be subsidized.

Furthermore, best practices that contribute to productivity improvement was visualized based on knowledge acquired through priority support initiatives and revitalization support advisors, and a “production management model” for the construction industry was created in reference to productivity improvement initiatives that was implemented in other industries but was applicable to the construction industry, for utilization also in the support scheme of this program. Additionally, seminars and individual consultations were held to provide knowledge of best practices and production management models, and efficient and effective online education programs and methods were developed and administered on a test basis.

2. Financial support in the construction industry

(1) Implementation of the Local Construction Management Enhancement Loan Program

To further facilitate funds procurement by construction companies acting as the main contractor, the Local Construction Management Enhancement Loan Program was implemented, which allows small and medium-sized construction enterprises and second-tier construction companies to receive a loan from loan businesses in proportion to the construction work using the contract value credit from public works as collateral. The program aims to secure loan funds and reduce procurement interest rates by attaching a

loan guarantee to sublease funds that loan businesses borrow from financial institutions when providing a loan.

(2) Implementation of the Subcontracting Receivables Protection Support Program

The operating period of the Subcontracting Receivables Protection Support Program, which was implemented to facilitate the procurement of funding and the protection of receivables held by building subcontractors and similar enterprises, was extended. The main purpose of this program is to minimize risk and compensate for losses by small, medium-sized and second-tier building subcontractors when a receivable payable to a building subcontractor by the main building contractor for subcontracted building work is guaranteed by a factoring company.

3. Support for overseas business expansion in the construction industry

[Fiscal 2016 budget: ¥70 million]

To support overseas expansions by second-tier and SME construction companies, seminars on overseas expansion strategies intended for business managers were held in 5 locations in Japan, and missions were dispatched to Vietnam and Myanmar. Additionally, support was provided for participation in a trade fair in Vietnam, practical seminars on overseas construction industries were held in Japan, and initiatives were implemented for introducing the latest information via a database of overseas construction and real estate markets.

4. Financial measures for small and medium realtors

Loan guarantee programs designed to provide guarantees for business loans for regional revitalization and for loans to fund joint initiatives by small and medium realtors were continued so as to supplement credit and facilitate financing of small and medium realtors.

5. Regional housing greenification program

[Fiscal 2016 budget: ¥11 billion]

To strengthen the regional production framework for wooden housing and reduce environmental burden, support was provided for the development of energy efficient and durable wooden housing and buildings through groups comprising businesspersons in related fields involved at all stages from provision of materials through to design and implementation.

6. Program for developing a framework for wooden housing construction techniques

[Fiscal 2016 budget: ¥510 million]

Support was provided for initiatives related to the development of new carpenters and implementation of courses on renovation techniques for enhancing the

technical level of skilled carpenters.

Section 4 Measures for the environmental sanitation business

1. Measures for the environmental sanitation business

[Fiscal 2016 budget: ¥1.03 billion]

Subsidies were provided to environmental sanitation associations, the national environmental sanitation guidance center, and prefectural environmental sanitation guidance centers, to promote the creation of safe and comfortable lifestyle environments from the perspective of sanitation. Support was provided specifically for rehabilitating the management of environmental sanitation businesses such as the hairdressing, dry cleaning and restaurant businesses, maintaining and improving sanitation standards, and protecting user and consumer interests. In fiscal 2016, the management improvement of environmental sanitation businesses was supported by collecting and compiling a collection of best practices that contribute to improving productivity, and placing particular focus on implementing model projects (model projects for productivity improvement of environmental sanitation businesses) that offer detailed management consultation and guidance in response to the conditions, size and regional characteristics of each business.

2. Loans for ES businesses

[Fiscal 2016 budget: ¥2.5 billion]

The JFC provided low-interest loans (environmental sanitation loans) with the aim of improving and otherwise promoting public health, by providing financial assistance to environmental sanitation businesses. In fiscal 2016, the scope of the loan for working capital related to earthquake resistance was expanded, and under the fiscal 2016 supplementary budget, financial support was provided to environmental sanitation businesses that were affected by the Kumamoto Earthquake, the interest rate on loans was lowered to enterprises endeavoring to maintain or expand employment and enterprises receiving management support, and the interest rate was also lowered on loans for responding to inbound demand.

Section 5 Environmental and energy measures

1. Administrative support for the system for certifying greenhouse gas reductions by SMEs (J-Credit Scheme)

[Fiscal 2016 budget: ¥440 million]

- The J-Credit Scheme is a system for certifying the

amounts of greenhouse gas emission reductions achieved through capital investment by SMEs as “credits”, and assistance was provided with administering the scheme and formulating business plans.

- This program also develops the foundation for the carbon offset mechanism whereby CO₂ emissions from products and services are offset with carbon credits, by taking advantage of the “visualization” of carbon emissions from products by the Carbon FootPrint (CFP) system, and promoted demand for the credits created under the J-Credit Scheme.
- By boosting low-energy investments by SMEs and promoting the circulation of funds in Japan through the use of these credits, the program achieved a good balance between the environment and economy.

2. Environment and Energy Measure Fund (for anti-pollution measures)

[Fiscal investment and loan program]

To promote anti-pollution measures by SMEs, the JFC provides special interest rate loans to businesses that install pollution prevention equipment. In fiscal 2016, the period of the scheme was extended to 31 March 2017 upon conducting a necessary review.

In fiscal 2016, funds worth ¥221 million were provided to 8 projects related to atmospheric pollution, funds worth ¥106 million were provided to 3 projects related to water pollution, and funds worth ¥2.952 billion were provided to 42 projects related to industrial waste and recycling (as of the end of January 2017).

3. Anti-pollution tax system [Taxation scheme]

The anti-pollution tax system supports the anti-pollution initiatives of businesses, including SMEs, by offering measures such as a special exemption from the tax base for anti-pollution equipment (wastewater or liquid waste treatment facilities) and a special depreciation measure for the acquisition of anti-pollution equipment. The system was continued to be implemented in fiscal 2016.

4. Energy Use Rationalization Business Support Subsidy

[Fiscal 2016 budget: ¥51.5 billion]

This program subsidized the costs required for energy conservation and power peak countermeasures that are implemented when enterprises replace their energy-saving facilities and systems in their plants and offices, improve their manufacturing processes or otherwise make modifications. Particular focus was placed on supporting high-level energy-saving initiatives that strengthen compliance with the Energy Conservation Act, such as the introduction of a benchmark system based on the Act.

5. Program to promote investment in energy

conservation and productivity revolution at SMEs, etc.

[Fiscal 2015 supplementary budget: ¥44.2 billion]

A subsidy system was established to allow easy application based on the energy conservation effect of each item of equipment introduced. Additionally, concentrated support was provided for upgrading existing equipment with high-efficiency energy-saving equipment, to increase business productivity and the energy conservation performance of SMEs and other businesses, and thereby strengthen their competitiveness.

6. Subsidy for programs that promote the installation of designated equipment to rationalize energy use

[Fiscal 2016 budget: ¥2.7 billion]

To promote the introduction of top-runner equipment based on the Energy Conservation Act and other energy-saving facilities, an interest subsidy was provided to businesses receiving financing from private financial institutions. The program was operated through collaboration with local financial institutions, to encourage active investment in energy conservation by regional SMEs and medium enterprises.

7. Program for promoting the introduction of energy-saving measures

[Fiscal 2016 budget: ¥750 million]

The program aimed to laterally expand the use of energy-saving measures by diagnosing the energy and power saving potential of SMEs and medium businesses free of charge and widely disseminating information on specific diagnosis case examples and technologies.

Additionally, to promote energy-saving initiatives that were proposed through the diagnosis program, platforms for providing detailed consultation on energy conservation in each region in consideration of the business conditions of SMEs was established in 19 locations.

8. Taxation scheme to promote environment-related investment [Taxation scheme]

The taxation scheme that offers individuals and corporate entities that file a blue tax return a 30% special depreciation or a 7% tax credit (SMEs only) during the first year for the cost of acquiring facilities that contribute to promoting energy conservation and recycling, was extended two years under the fiscal 2016 tax reform upon conducting a necessary review, which resulted in an addition of geothermal and woody biomass power generation facilities and excluding designated photovoltaic power generation facilities.

9. Program to create a fund to promote regional low-carbon investment

[Fiscal 2016 budget: ¥6 billion]

In order to call in private funding to low-carbon projects such as renewable energy projects that are likely to be profitable but lack sufficient private funding due to risks stemming from long lead times or long investment recovery periods, funding was provided from the low-carbon investment promotion fund.

10. Eco-Lease promotion program

[Fiscal 2016 budget: ¥1.8 billion]

The widespread adoption of low-carbon devices was supported by subsidizing part of the total lease payment and promoting the utilization of a no-deposit “lease” scheme among SMEs that have difficulty coping with the very high initial investment costs (deposits) of installing low-carbon devices.

11. Eco-Action 21

Eco-Action 21 has approved and registered 7,716 businesses as of the end of December 2016. An examination for the revision of the Eco-Action 21 Guidelines was continued, to increase the effectiveness of environmental management by second-tier businesses and SMEs and contribute to enhancing their corporate value. Additionally, a demonstration test was launched with the aim of introducing Eco-Action 21 to the value chain of large enterprises, and a support program was launched toward the introduction of an environment management system dedicated to CO2 reduction based on the Eco-Action 21 scheme. In fiscal 2016, 157 second-tier enterprises and SMEs introduced an environmental management system.

Section 6 Measures on intellectual property

1. Surveys of technical trends of patent application [Fiscal 2016 budget: Included in ¥900 million]

Trends in patent applications were surveyed, to assist in the formulation of R&D strategies and IP strategies in Japan’s industries. In fiscal 2016, 16 themes were surveyed, related to technical fields that are garnering social attention, such as smart manufacturing technologies, and technical fields that embody Japan’s strengths, such as the GAN power device technology. The results of the surveys were made publicly available via such sources as the Japan Patent Office’s website.

2. Subsidy for international patent applications [Fiscal 2016 budget: ¥630 million]

In order to encourage SMEs to file strategic applications for international patents, subsidies were provided to partially defray the costs incurred (such as

application fees to overseas patent offices, expenditure on hiring Japanese agents and local agents overseas, and translation costs) by SMEs aspiring to expand their business overseas. In addition to prefectural SME support centers, support was also provided by JETRO as a nationwide regional implementation body.

3. Promotion of the wider use of IP systems

[Fiscal 2016 budget: ¥80 million]

Information sessions were held for individuals, tailored according to their different levels of knowledge and expertise on the intellectual property system.

These included sessions outlining the IP system and explaining basic knowledge for beginners, along with sector-specific sessions with more specialized content for people with some experience, looking at topics such as the examination criteria for patents, designs, and trademarks, the application of the trial system and procedures for international applications.

In fiscal 2016, 63 information sessions for beginners were held in 47 prefectures, and 62 information sessions for working-level personnel were held in major cities throughout Japan.

4. Program supporting measures by SMEs to counter overseas infringement

[Fiscal 2016 budget: ¥130 million]

To promote the timely and appropriate exercise of industrial property rights overseas by SMEs, the costs required for an investigation of imitation products through to procedures for issuing warning statements and government seizure against the manufacturer of imitation products were subsidized through JETRO. This measure was applied to 20 cases. The cost of consulting with a lawyer consultation and the cost of a lawsuit were also subsidized in cases where an SME is sued by a local enterprise overseas for an infringement of intellectual property rights. This measure was applied to 2 cases. Additionally, from fiscal 2016, a new measure was implemented to subsidize the cost of filing an opposition or filing a request for a trial for invalidation in cases of an usurped application of the brand trademark of an SME or a regional organization by a local overseas enterprise, or the cost required for filing a request for a trial for rescission such as of an usurped trademark. This measure was applied to 10 cases.

5. Patent strategy portal site

[Fiscal 2016 budget: Included in ¥10 million]

The patent strategy portal site on the Patent Office's website provided online access to "data for self-analysis", which includes individual data on the number of patent applications, the number of examination requests, and the patent allowance rate over the preceding 10 years, for applicants who have applied for a password.

6. Reductions in patent fees for SMEs

SMEs actively pursuing R&D continued to be subsidized through the reduction by half of examination request fees and patent charges (for 10 years from the first year).

Two measures were implemented for small and medium venture enterprises and micro businesses. One measure reduces examination request fees, patent charges (for 10 years from the first year), and administrative charges for overseas patents (administrative charges for investigations, forwarding and preliminary examinations) by one third, and the other measure subsidizes amounts equivalent to two-thirds of the amount paid in international patent administration fees and handling fees.

7. Accelerated examination and accelerated appeal examination system

In cases where the applicant or appellant is an SME or micro business, a system was adopted whereby examinations and appeal examinations could be fast tracked by filing an "explanation of situation for accelerated examination" or "explanation of situation for accelerated appeal examination." In fiscal 2016, as many as 15,582 businesses applied for accelerated examination, and 187 businesses applied for accelerated appeal examination (as of the end of January 2017).

8. Provision of a one-stop IP service for SMEs (General IP Help Desks)

[Fiscal 2016 budget: Included in INPIT subsidy]

"General IP Help Desks" have been established in each prefecture and staffed by support staff in order to provide a one-stop service for on-the-spot resolution of IP concerns and problems encountered by SMEs in the course of business administration. The use of IP by SMEs was further promoted by such means as using IP experts to work with SMEs to jointly resolve highly specialist issues, collaborating with SME support agencies such as "Yorozu support centers" and similar organizations.

In fiscal 2016, the program was placed under the management of the National Center for Industrial Property Information and Training (INPIT), to strengthen cooperation with its Trade Secret and IP Strategy Consultation Desk and Overseas Expansion IP Support Desk. Furthermore, the scope of support was expanded, such as by augmenting specialists who provide support in regard to employee invention regulations, cooperating with the Japanese Standards Association (JSA) in providing advice on standardization, and responding to consultations about the geographical indications protection system and other IP consultations related to the agriculture, forestry and fishery industries, while also strengthening the support framework to also include

medium enterprises within the scope of support.

9. Development of a one-stop support framework for trade secrets (“Trade secret/IP strategy consultation center—Trade secret hot line—”)

[Fiscal 2016 budget: Included in INPIT subsidy]

The “Trade secret/IP strategy consultation center—Trade secret hot line—” that was newly established in the National Center for Industrial Property Information and Training (INPIT) on February 2, 2015 cooperated with the IP comprehensive support center in responding to consultations mainly from SMEs through IP experts. The consultations dealt with specific IP strategies, such as the open/close strategy that involves the rights of patents and confidentiality of trade secrets, as well as methods of managing confidential trade secrets and leaks and outflows of trade secrets. Particularly with respect to cases of leakage and outflows of trade secrets, information security measures and cyberattacks, the consultation center maintained its framework of responding to consultations in cooperation with the National Police Agency and Information Technology Promotion Agency, Japan (IPA), in accordance with the content of the consultation. Seminars on trade secrets and intellectual properties were also organized, and activities were implemented for dissemination and awareness-raising regarding trade secrets through the development of e-learning contents.

10. Emerging Country IP Information Databank

[Fiscal 2016 budget: Included in ¥1 million; Included in INPIT subsidy]

This is an informational website aimed at legal and IP managers in Japanese enterprises doing business in developing countries and similar regions. Its purpose is to provide a wide range of IP information for various developing countries, including information on application procedures, examination and litigation procedures, licensing procedures and statistical and institutional trends.

In fiscal 2016, continued efforts were made to further expand the content (No. of content items as of the end of January 2017: 1,765).

11. Dispatch of Global IP Producers

[Fiscal 2016 budget: Included in INPIT subsidy]

The National Center for Industrial Property Information and Training (INPIT) has dispatched experts in IP management (“Global IP Producers”) to assist SMEs and other enterprises with promising technologies that are likely to drive overseas expansion. These Global IP Producers support overseas business expansion by SMEs through the use of intellectual property, by assisting in the formulation of IP strategies tailored to the nature of the overseas operations and factors such as the situations and

systems in the target countries.

In fiscal 2016, seven Global IP Producers provided support to 262 businesses (as of the end of January 2017).

12. On-site and TV interview examinations

[Fiscal 2016 budget: ¥20 million]

To provide support to staff in small and medium venture enterprises throughout Japan, onsite interview examinations were held by inspectors sent to interview venues across Japan, and TV interview examinations were held via the Internet using the applicants’ own PCs. Additionally, a region-based patent promotion program was launched, in which an onsite interview examination and seminar on patent rights are held at the same time, intended for corporate cluster regions, such as research parks and universities, where local SMEs, venture enterprises, and research facilities are concentrated.

13. Program to support the analysis and utilization of patent information by SMEs

[Fiscal 2016 budget: ¥140 million]

To promote the utilization of intellectual property rights by SMEs, including their effective R&D and acquisition of rights, support was provided for the comprehensive analysis of patent information in response to needs at the R&D, application and examination request stages, not only to SMEs, but also to regional public organizations, public research organizations, and associations and chambers of commerce and industry.

14. Promotion of intellectual property financing

[Fiscal 2016 budget: ¥100 million]

A comprehensive initiative that promotes financing by financial institutions based on intellectual properties was implemented, such as by providing IP business assessment documents that contain easy-to-understand information about businesses that utilize SME patents and other intellectual properties to financial institutions that find it difficult to assess the patents and intellectual properties of SMEs. Support was provided for the creation of 150 IP business assessment documents.

15. Program for promotion of businesses that utilize Japanese intellectual properties

[Fiscal 2016 budget: ¥360 million]

The following initiatives were implemented via JETRO, to support the promotion of overseas business expansion through the use of intellectual properties of medium enterprises, SMEs and regional organizations that have acquired a regional collective trademark.

- (1) Candidate partners of license businesses with Japanese enterprises possessing outstanding intellectual properties were listed up through a survey, and

the information was utilized in business meetings mentioned in (2) and (3) below.

- (2) Support was provided for the creation of business models and the formulation of brand strategies that lead to license businesses overseas, and events and business opportunities were provided via seminars and training programs in Japan held by specialists and multiple occasions for individual interviews overseas.
- (3) Support was provided, such as by arranging opportunities for business meetings with business partner candidates, through participation in trade fairs and business meetings in Japan and overseas.
- (4) Advice was provided through intellectual property specialists, with a view to preventing the outflow of technologies.
- (5) The attractiveness of Japanese medium enterprises and SMEs having prospective intellectual properties and regional organizations that have acquired a collective trademark were widely communicated overseas in multiple languages, with careful consideration to prevent the outflow of technologies.

16. Program for strengthening capacities to support the intellectual properties of regional SMEs [Fiscal 2016 budget: ¥200 million]

To promote the protection and utilization of the intellectual properties of SMEs through detailed support in consideration of the various issues and regional characteristics of SMEs, Bureaus of Economy, Trade and Industry sought pioneering and advanced initiatives for supporting intellectual properties from highly motivated regional support organizations, and support was provided to 26 initiatives, including the support that was newly established in fiscal 2016 for initiatives that seek to resolve priority issues that are difficult to be resolved uniformly by the government.

17. Subsidy for trade insurance against IP lawsuits overseas [Fiscal 2016 budget: ¥60 million]

To allow SMEs to take measures against IP lawsuits overseas, an overseas IP lawsuit insurance system was established and operated by a membership of nationwide SMEs, to provide funds to cover for the cost of IP lawsuits overseas.

Subsidies were granted to a nationwide organization of SMEs, to subsidize 1/2 the premium of overseas IP lawsuit insurances. By reducing the burden of paying the insurance premium, the program encouraged subscription by SMEs.

18. Dispatch of business producers for regional revitalization [Fiscal 2016 budget: Included in ¥100 million]

With the objective of expanding business functions in the regions, three “business producers” were

dispatched to three institutions to support the development of an environment that is conducive to creating businesses, by helping to identify hidden needs that could lead to business, procure business capital by matching the needs with seeds through the creation and utilization of a regional network that includes financial institutions, and cultivate a market.

19. Provision of patent information

In response to advanced and diversified user needs for patent information, the Industrial Property Digital Library (IPDL) was revamped, and a new service for patent information provision called Japan Platform for Patent Information (J-PlatPat) was launched in March 2015. Through a user-friendly interface, J-PlatPat allows searches through official bulletins for patents in Japan, utility model patents, designs, and trademarks, and inquiries regarding the progress of patent applications. In July 2016, a service (one portal dossier (OPD)) was launched on J-PlatPat, to allow users to acquire information on PCT international patent applications and the procedures and examination of patent applications (dossier information), in addition to information on applications to the five major patent agencies in Japan, the U.S., Europe, China and South Korea.

Furthermore, to enable foreign patent documents and particularly the increasing numbers of Chinese and South Korean patent documents to be searched in Japanese, the Chinese and Korean Document Translation and Search System was launched in January 2015, and the Foreign Patent Information Service (FOPISER) was launched in August 2015 for referencing patent information in the ASEAN and foreign countries that are prominent destinations of overseas expansion by Japanese enterprises.

The services are available free of charge via the Internet.

Section 7 Promotion of standardization

1. Promotion of the strategic utilization of standardization by medium enterprises and SMEs

From among the proposals made by medium enterprises and SMEs by utilizing the Standardization System for New Market Creation that is based on the 2016 revision of the Japan Revitalization Strategy (approved by the Cabinet on June 2, 2016) and IP Promotion Plan 2016, standards have been formulated for 5 proposals as of fiscal 2016. Furthermore, local government bodies, industrial promotion organizations, regional finance institutions, and university and public research institutions (partner institutions) cooperated with the Japanese Standards Association (JSA) in increasing the number of partner institutions of the Standardization Support

Partnership System to 118 institutions as of fiscal 2016, to provide information and advice concerning the strategic regional utilization of standardization in all 47 prefectures. Also under the system, 147 seminars were held on the strategic utilization of standardization by medium enterprises and SMEs, as of the end of fiscal 2016. Furthermore, to promote cooperation between JETRO and testing/certification institutions, the support framework for the acquisition of overseas certification by SMEs was strengthened.

Small enterprise policies planned for fiscal 2017



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<p>Note: The quantities, amounts of money and other figures in this document are approximate and may be changed in the future.</p>
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The Basic Act for Promoting Small Enterprises approved 20 June, 2014 prescribes four basic policies for taking measures regarding the promotion of small enterprises in accordance with the basic principles for the sustained development of micro businesses.

<Basic policies>

1. Promote sales of products and provision of services that respond to diverse domestic and foreign demand, and promote the development of new businesses.
2. Facilitate effective use of management resources by small enterprises and the fostering and securing of personnel required by small enterprises.
3. Facilitate business activities of small enterprises that contribute to invigorating regional economies, improving the lives of local residents, and promoting exchange.
4. Develop a support system to provide appropriate support to small enterprises and devise other necessary measures.

Toward realizing these four basic policies, the Basic Plan for the Promotion of Small Enterprises (Cabinet decision of 3 October 2014) sets the following four goals.

- (1) Promoting business management that should be implemented for future demand
- (2) Promoting business renovation
- (3) Facilitating business activities contributing to regional economies
- (4) Developing a system for supporting micro businesses through community-wide collective efforts

The following chapters introduce the measures for small enterprises implemented in fiscal 2015 toward achieving these four goals.

Chapter 1 Promoting business management that should be implemented for future demand

Goals of the Basic Plan for the Promotion of Small Enterprises (1)

(1) Promoting business management that should be implemented for future demand

- Creating and discovering demand for micro business by more proactively taking advantage of their conventional face-to-face relationships with customers -

Small enterprises are facing reduced demand from structural factors in the Japanese economy and society including population decline and lifestyle changes. Moreover because of limitations on funds, personnel, product development capacity and other management resources, small enterprises have weak price competitiveness and sales abilities, and are easily influenced by structural changes.

On the other hand, because of their strengths in transactions based on face-to-face relationships of trust, small enterprises have the potential to develop new demand inside Japan and overseas by grasping needs to which large enterprises cannot respond, and developing and providing various products and services that are not caught up in price competition. Additionally, with the spread of IT, the potential for activities beyond existing business regions is expanding even for enterprises that are small scale. To maximize such potential response of small enterprises to structural changes, promote systematic management anticipating demand which grasps enterprise strengths, creates and cultivates demands, makes greater use of IT, and develops and provides new products and services.

Section 1 Enhancement of productivity improvement and technological capacity

1. Strategic Core Technology Advancement Program and support program for collaborative efforts [Fiscal 2017 budget: ¥13 billion]

Support will be provided for R&D initiatives that SMEs and micro-businesses having an approved R&D plan under the SME Technological Advancement Act implement in cooperation with universities, public research organizations, and other such R&D institutions. Support will also be provided to SMEs and micro-businesses in their effort to develop a new service model based on industry-academia-government collaboration, in line with a cross-field collaboration plan for cultivation of a new business field that has been approved under the Act on Strengthening the Management of SMEs, etc. (Ongoing)

2. The National Institute of Advanced Industrial Science and Technology (AIST)'s bridge-building initiatives for medium enterprises and SMEs

[Included in the grant for AIST operating costs]

AIST will support the R&D initiatives of medium enterprises and SMEs by establishing a nationwide framework of cooperation such as through the appointment of an AIST innovation coordinator in public research organizations that possess knowledge of the needs of regional medium enterprises and SMEs, and by strengthening capacities to “bridge”

innovative technology seeds of regional enterprises with commercialization initiatives. (Ongoing)

3. Comprehensive support for enhancement of core manufacturing technologies among SMEs

Comprehensive support will be provided through the Strategic Core Technology Advancement Program and special loans and guarantees to SMEs and micro-businesses with approved specific R&D plans that have been formulated in accordance with the advancement guidelines under the SME Technological Advancement Law. (Ongoing)

4. R&D promotion tax system (for strengthening the technological bases of SMEs) [Taxation scheme]

Under the FY2017 tax reform, the tax credit that has been offered in accordance with the total cost of testing and research expenses undertaken by SMEs will be revised into a scheme that offers a tax credit at a rate (12% to 17%; 6% to 14% for large enterprises) that corresponds to the rate of increase of such expenses, and a measure will be introduced that provides an additional 10% tax credit to the upper limit in cases where testing and research expenses increase by more than 5%. Furthermore, the costs of services development as part of the fourth industry revolution will be included among the testing and research expenses eligible for the tax credit. In addition to the above, the scheme that offers a tax credit on the total cost of special testing and research expenses (testing and research performed jointly or entrusted to a university, a national institution or enterprise), and the tax scheme that deducts an amount calculated by

multiplying a fixed rate to the excess amount in cases where the amount of testing and research expenditure exceeds 10% of average sales, will continue to be offered. (Ongoing)

5. Support under the Small Business Innovation Research (SBIR) Program

The provision of central government-allocated R&D spending for SMEs and micro-businesses will be expanded and the commercialization of the results of technological development activities will be promoted, such as by designating specific subsidies for the development of new technologies leading to the creation of new industries, setting targets for expenditures, and formulating policies for measures to support the commercialization of development results achieved using specified subsidies. Additionally, to promote the commercialization of technology development outcomes, SMEs and micro-businesses will be informed and encouraged to take advantage of the available commercialization support, such as the database of the technological capabilities of enterprises granted specific subsidies, and the low interest loans will be offered by the Japan Finance Corporation (JFC). At the same time, the multistage selection process for the allocation of special subsidies will be introduced and expanded. (Ongoing)

6. Cross-field collaboration for new business development

Pursuant to the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises, authorization and subsidies will be provided for business plans that aim to develop and market new products and services by effectively combining the management resources (technology, markets, etc.) of SMEs in different sectors, in addition to providing wide-ranging support through special loans and guarantees. (Ongoing)

7. Program to promote business creation through medical-engineering collaborations **[Fiscal 2017 budget: ¥3.45 billion]**

To promote the network for supporting the development of medical equipment and to provide seamless support from the initial stages of development to commercialization, accompanying-style consultation will be provided. In fiscal 2017, support will also be provided for the commercialization of approximately 40 items of medical equipment through a development and demonstration program, to promote the development of medical equipment through collaborations between manufacturing SMEs and medical institutions. (Ongoing)

8. Enterprise vitality enhancement funding (in relation to the Manufacturing Act)

[Fiscal investment and loan program]

Japan Finance Corporation (JFC) will provide loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors. (Ongoing)

9. Act for Strengthening the Management of SMEs, etc.

Continued measures will be taken to provide taxation and financial support to SMEs that have formulated an approved management capability enhancement plan based on the Act for Strengthening the Management of SMEs, etc., such as through the scheme for reducing the fixed assets tax and the loan system of the Japan Finance Corporation (a 0.9% cut from the base interest rate for equipment funds). Additionally, under the FY2017 tax reform, equipment, fixtures and building accessories will be included under the scope of the scheme for reducing fixed assets tax, for specified regions and industries. (Ongoing)

10. Taxation scheme for strengthening the management of SMEs [Taxation scheme]

A scheme will be newly created under the FY2017 tax reform, to provide SMEs that have an approved plan under the Act for Strengthening the Management of SMEs, etc. an immediate depreciation deduction or a 10% tax credit (7% for enterprises with a capital of more than ¥30 million) for their acquisition of facilities needed to strengthen their management capabilities. (New)

Section 2 Promotion of IT

1. IT utilization promotion fund

[Fiscal investment and loan program]

In the light of slow investments in security, low-interest loans will be provided to enterprises that implement information security measures accompanying IT investments, beginning in fiscal 2017. (Ongoing)

Section 3 Support for market and demand cultivation

1. Micro business promotion program

[Fiscal 2017 budget: ¥4.94 billion]

Support for micro businesses will be promoted through the “accompaniment” style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support will be provided for the formulation of business plans and market

development in consideration of demand by micro businesses.

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers of commerce and industry will cooperate with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets. (Ongoing)

2. Support for cultivation of markets through exhibitions, business meeting events, and other events

[Included in SMRJ subsidy program]

SMRJ will provide support for the development and expansion of markets for products and services developed by SMEs and micro-businesses through agricultural-commercial-industrial collaborations or by using local resources, by organizing exhibitions, business fairs, and other such events. (Ongoing)

**3. Market Development Coordination Program
[Included in SMRJ subsidy program]**

Market development experts with experience in working at trading companies, manufacturers, etc. (“market development coordinators”) assigned to SMRJ will help SMEs with newly developed products, technologies, and services gain a foothold in new markets and acquire the capacity for market cultivation through the implementation of test marketing activities in the wider Tokyo and Kinki regions. (Ongoing)

**4. Support program for market cultivation
[Included in SMRJ subsidy program]**

The SMRJ will support the market cultivation initiatives of SMEs and venture enterprises by promoting business match-ups between enterprises participating in SMRJ-sponsored trade fairs or concurrent events and buyers, and providing advice. (Ongoing)

**5. Support for creation of new businesses
[Included in SMRJ subsidy program]**

Close, integrated support will be provided to SMEs and other entities engaging in new business by stationing experts in marketing and other areas of business in SMRJ’s 10 branches and offices across Japan to help formulate business plans based on the Regional Resource Utilization Promotion Act, Agricultural-Commercial-Industrial Collaboration Promotion Act, and New Business Activity Promotion Act. (Ongoing)

**6. J-GoodTech
[Included in SMRJ subsidy program]**

The SMRJ will provide support to SMEs seeking

to cultivate markets in and outside of Japan, by connecting them to major domestic manufacturers and overseas enterprises via a website that posts information about Japanese SMEs boasting outstanding technologies and products. (Ongoing)

Section 4 Support for overseas expansion

1. Global alliance support with medium enterprises and SMEs in Japan

To support investment tie-ups between medium enterprises and SMEs in Japan and foreign enterprises, relevant institutions such as JETRO, SMRJ, the Shoko Chukin Bank, and SBIC will continue to coordinate their efforts to promote business match-ups, etc. (Ongoing)

2. Program for supporting overseas expansion by SMEs and micro-businesses

[Fiscal 2017 budget: ¥2.39 billion]

To support overseas expansion by SMEs and micro-businesses, the SMRJ and JETRO will collaborate in providing strategic support through measures that respond to their needs at various stages of overseas expansion. They include support for the cultivation of overseas companies through the provision of information on overseas market trends and regulations, implementation of feasibility studies, and establishment of an export framework, as well as support for participation in trade fairs in Japan and overseas, support for the cultivation of overseas markets by inviting overseas buyers to Japan, support for dissemination of the certificate of origin system based on economic partnership agreements, and local support once companies advance overseas. Enterprises that face a challenge in the management of overseas subsidiaries will also be supported in their effort to formulate business restructuring plans. (Ongoing)

3. JAPAN Brand Development Assistance Program

[Fiscal 2017 budget: Included in ¥1.35 billion]

To facilitate overseas expansion by SMEs, support will be provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and participation in overseas trade fairs. (Ongoing)

4. Funding for overseas expansion and business restructuring operations

[Fiscal investment and loan program]

Loans will be provided by the JFC to assist with the funding of SMEs that for business reasons need to

expand overseas or restructure their overseas business to adapt to structural economic changes, and SMEs whose business activities in Japan are affected by the poor business performance of their overseas business. (Ongoing)

5. Support for overseas subsidiaries to obtain capital, etc.

Under the SME Business Capabilities Enhancement Support Bill, where SMEs had management innovation plans approved under the New Business Activity Promotion Act, the JFC will provide loan guarantees to their overseas subsidiaries for loans from local financial institutions. (Ongoing)

6. Global Niche Market Top Support Lending Facility

[Fiscal investment and loan program]

To support strategic overseas expansion by medium enterprises and SMEs who display a strong presence in the world by excelling in a specific field (global niche leader enterprises) and their candidates, Shoko Chukin Bank will provide long-term, lump-sum repayment and successful interest payment-type loans under the Global Niche Market Top Support Lending Facility. (Ongoing)

7. Program for cultivation of emerging markets based on technical cooperation

[Fiscal 2017 budget: Included in ¥4.17 billion]

The following three initiatives will be implemented to support Japanese companies in acquiring emerging markets. (Ongoing)

- (1) Support will be provided to managers and engineers in developing countries who engage in management, manufacturing, operations, etc., by offering training programs in Japan and guidance by dispatched experts.
- (2) To resolve the lack of “global human resources” who will play central roles in overseas expansion initiatives, which is an issue among medium enterprises and SMEs, young Japanese workers will be given opportunities for overseas internships, and foreign workers will be given opportunities for internships in Japanese companies.
- (3) Support will be provided to Japanese companies engaging in the development of products and services that resolve social issues in developing countries in collaboration with universities, research institutes, NGOs or other companies in developing countries.

8. Utilization of the private-sector collaborative volunteer program and matchups with returned JICA volunteers

[Fiscal 2017 budget: ¥160 million]

The Japan International Cooperation Agency (JICA) will work toward developing personnel capable

of active involvement in the global community by utilizing the private-sector collaborative volunteer program to dispatch employees of private-sector enterprises to developing countries as Japan Overseas Cooperation Volunteers (JOCV) and JOCV Senior Overseas Volunteers in response to the needs of each enterprise. Additionally, to support the employment of returned JICA volunteers, match-ups will be promoted between personnel with expert knowledge of a certain developing country and enterprises seeking such personnel. (Ongoing)

9. Reduction and waiver of fees for credit checks on SMEs using trade insurance

To support the use of trade insurance by exporting SMEs, Nippon Export and Investment Insurance (NEXI) will continue arrangements to bear the cost of providing credit information on business partners required when using trade insurance. (Ongoing)

10. Activities to expand and publicize use of trade insurance by SMEs (creation of a cartoon and video)

Continued efforts will be made to disseminate greater understanding of trade insurance, by showing a video on trade insurance at various trade fairs and information sessions, and distributing cartoon-based pamphlets. (Ongoing)

11. Activities to expand and publicize use of trade insurance by SMEs (seminars, consultation events, etc.)

To promote the use of trade insurance by SMEs, the website for SMEs will be renewed. Nationwide seminars and face-to-face consultation events will be held continuously under the sponsorship of NEXI, and instructors from NEXI will be sent to lecture in seminars hosted by SME-related organizations and study meetings of affiliated regional banks in order to raise awareness and encourage wider use of trade insurance. (Ongoing)

12. Improvement of access to trade insurance

In December 2011, NEXI launched the “SME Overseas Business Support Network” in collaboration with 11 regional banks to provide support for overseas business expansion by SMEs. The numbers of cooperating institutions have increased yearly, and in fiscal 2013, a Credit Union Network was established with the participation of credit unions. Ongoing efforts will be made to augment such networks. (Ongoing)

13. Support for security export control

Support will be provided for the development of voluntary administration structures for security trade control at SMEs that engage in export and the provision of technology, by holding information

sessions for ensuring effective security trade control based on the Foreign Exchange and Foreign Trade Act, and dispatching specialists through schemes such as the one-stop general support program for SMEs and micro-businesses. (Ongoing)

14. Promotion of BOP business

[JETRO grant]

“Base of the pyramid” (BOP) business and volume zone business will be promoted, so that growth markets in developing countries can be approached as part of Japanese companies’ growth strategies. Specifically, JETRO will provide consistent support to individual enterprises as appropriate to their business phase, by using local coordinators. Additionally, consultations will be offered to Japanese enterprises that are considering BOP business, marketing support will be provided through the implementation of acceptability surveys, and local matchup support will be provided to promote active participation in BOP and volume zone businesses. Furthermore, demonstration projects will continue to be implemented in support of enterprises that aim to establish a business base in Africa. (Ongoing)

15. Program for basic studies, feasibility studies, dissemination and demonstration (ODA match-up program for SME products and technologies)

[Fiscal 2017 budget: Included in ¥153 billion]

This program aims to apply the outstanding products and technologies of Japanese SMEs to the growth of developing countries via ODA, and thereby achieve a balance between the growth of developing countries and economic revitalization in Japan. (Ongoing)

16. Support for overseas expansion by SMEs (provision of equipment that use SME products)

[Fiscal 2017 budget: Included in ¥163.1 billion]

Products from Japanese SMEs are donated to developing countries based on requests from their governments and development needs, not only to support the development of developing countries, but also to increase recognition of such products. (Ongoing)

17. New Export Nation Consortium

[Fiscal 2016 supplement budget: Included in ¥100.13 billion]

To support the overseas expansion of medium enterprises and SMEs, a consortium has been established, widely composed of support organizations such as JETRO, SMRJ, NEDO, and financial institutions. It provides comprehensive support, from the development of technologies to market cultivation, through experts who offer close assistance to enterprises and the utilization of various support schemes. (Ongoing)

Chapter 2 Promoting business renovation

Section 1 Support for new business startups

1. Subsidy for business startups and succession (Startup)

[Fiscal 2017 budget: Included in ¥1.1 billion]

A subsidy will be provided to entrepreneurs for the cost of starting a business that provides new products or services and creates new demand in the regions. In fiscal 2017, such businesses will be required to create employment for at least one worker during the program implementing period. A maximum of ¥2 million will be provided (¥1 million in cases where external capital has been procured), at a subsidy rate of 1/2. (New)

2. Subsidy for startup support businesses

[Fiscal 2017 budget: Included in ¥1.1 billion]

Support will be provided to startup support businesses that engage in business to support startups of designated businesses under the Industrial Competitiveness Enhancement Act, where they provide startup support services based on an approved business startup support plan (also in response to startup needs stemming from dual occupations and side businesses) or undertake initiatives to enhance the quality of their startup support services. (New)

3. New Startup Loan Program

[Fiscal investment and loan program]

Under this program, unsecured, unguaranteed loans are provided by the JFC to persons embarking on new ventures and persons who have just started up in business. (Ongoing)

4. Loan Program for Supporting Female, Young, and Senior Entrepreneurs

[Fiscal investment and loan program]

The JFC will apply preferential interest rates to loans offered to women, young people under the age of 35 and older people aged 55 or older, who have started a business within the past seven years or so, to support the creation of new businesses by diverse entrepreneurs. (Ongoing)

5. Funding for supporting renewed startups (lending-support schemes for renewed startups)

[Fiscal investment and loan program]

By assessing entrepreneurs with failed businesses to determine factors such as their qualifications as managers and their business prospects, the JFC will offer loans to candidates who face difficult circumstances in relaunching their businesses. (Ongoing)

6. Guarantees for founders

To boost lending to startup entrepreneurs by private financial institutions, a guarantee program will be implemented, which specifically encourages credit guarantee corporations to provide guarantees to individuals who are starting up in business or who started up in business less than five years ago. (Ongoing)

7. Improving supply of “risk money” needed when starting a business

The supply of “risk money” that is required to start up or develop a business will continue to be promoted by making use of the Innovation Network Corporation of Japan (INCJ), the Development Bank of Japan (DBJ) and the Shoko Chukin Bank. (Ongoing)

8. Fund Investment Program (Startup Support Fund, SME Growth Support Fund)

The creation of investment funds operated by private sector investment companies to stimulate private funds will be promoted through investment by SMRJ (up to one half of the total value of the fund concerned) with the aim of expanding the range of opportunities for investment in ventures (SMEs) at the startup or early growth stage and in SMEs pursuing growth through the development of new business. (Ongoing)

9. Program for strengthening cooperation in the global venture ecosystem

[Fiscal 2017 budget: ¥350 million]

Startup communities in Japan will be revitalized by promoting business collaborations and network creations through the activities of the Venture Business Creation Council, composed mainly of entrepreneurs who are the bearers of new business creation, venture enterprises, large enterprises, and venture support personnel (VCs, etc.). Additionally, the creation of networks with Silicon Valley will be promoted under the Project for Bridging Silicon Valley and Japan, by sending entrepreneurs and personnel from medium enterprises and SMEs to Silicon Valley and holding US-Japan exchange events. (Ongoing)

10. Program for discovery of potential entrepreneurs

[Fiscal 2017 budget: Included in ¥1.1 billion]

Under this program, certification will be granted to business startup schools that offer a certain level of curriculum specified by the government, and support will be provided for the acquisition of basic entrepreneur knowledge. Additionally, a nationwide business plan contest will be held from the perspective of discovering potential entrepreneurs and increasing the number of entrepreneurs throughout the regions in

Japan in the future. (New)

11. Angel tax system [Taxation scheme]

To promote the financing of newly founded venture enterprises by individual investors (“angels”), measures will continue to be taken to increase recognition of this taxation scheme and develop an environment that is conducive to promoting business startups. (Ongoing)

12. Taxation measures to promote venture investment in enterprises [Taxation scheme]

This initiative allows companies that invest in a venture enterprise through a venture fund certified by the Minister for Economy, Trade and Industry under the Industrial Competitiveness Enhancement Act (restricted to cases in which more than 50% of the amount invested is invested in a venture enterprises located in the regions) to accumulate provisional funding for losses of up to 50% of the amount invested and write off that fund as expenses (review of the accumulation rate of provisional funding and fund requirements under the fiscal 2017 tax reform). Measures for widespread dissemination will continue to be taken, so that the system is utilized effectively, and many attractive venture enterprises emerge in Japan. (Ongoing)

13. Management Innovation Support Program

Support will be provided for new business activities undertaken by SMEs through mechanisms such as low-interest loan programs and special credit guarantees for the implementation of approved management innovation plans prepared by SMEs planning to engage in new business activities to improve their business performance under the Act on Strengthening the Management of SMEs, etc. (Ongoing)

14. Construction of startup support system in the regions

To realize overseas market cultivation by SMEs, support will be provided where a group of SMEs work together to formulate a strategy based on the advantages and disadvantages of their materials and technologies, and endeavor to develop products or participate in overseas trade fairs based on that strategy. (Ongoing)

15. SME and micro-business management enhancement loan program

[Fiscal 2017 budget: ¥1.6 billion]

On the premise that support is provided by approved support agencies, the management of SMEs and micro-businesses will be strengthened through measures such as low-interest loans from the JFC (0.4% below the standard rate for women, young people and senior business startups) for business startups, businesses

expansions, and cultivation of new business fields. (Ongoing)

16. Local 10,000 Projects (Subsidies for business generating regional economic activity)

[Fiscal 2017 budget: Included in ¥1.87 billion]

To support the startup of region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) through the collaboration of industry, academia, financial institutions and government, subsidies will be granted to cover part of the cost of subsidies provided by local public organizations for expenditure required by private sector businesses at the business establishment phase. (Ongoing)

17. Construction of support networks among female entrepreneurs

[Fiscal 2017 budget: Included in ¥190 million]

To support business startups by women, initiatives to disseminate best practices of support organizations will be strengthened, events for spreading the knowledge of entrepreneurship to potential entrepreneurs will continue to be held, and a support environment that responds to the wide variety of needs of women will be developed, through female entrepreneur support networks that have been created in ten nationwide locations as of fiscal 2016, composed mainly of local financial institutions, industrial support organizations, and startup support organizations. Additionally, to promote the development of human resources capable of effectively providing support to female entrepreneurs, a training program will be offered to institutions that compose the networks. (Ongoing)

18. Lifelong startup support subsidy

[Fiscal 2017 budget: ¥350 million]

To create employment opportunities for middle-aged and older people and promote the realization of a society where people can remain active throughout their lives, a subsidy will be provided to middle-aged and older entrepreneurs to cover part of the expenses required to start a business, including the costs of recruiting and employing workers and providing education and training. (Ongoing)

Section 2 Support for business succession

1. Small Enterprise Mutual Relief System

The Small Enterprise Mutual Relief System is a system for giving micro business owners a retirement benefit. Ongoing efforts will be made to promote enrollment in the system and ensure steady supply of mutual aid money. (Ongoing)

2. Business succession support

[Fiscal 2017 budget: Included in ¥6.11 billion]

Business Succession Support Centers established within an approved support organization in each prefecture will provide information and advice on business succession to SMEs and micro-businesses facing the problem of lack of successor, and will also provide support for business match-ups through M&A and other such schemes.

In fiscal 2017, cooperation with Business Succession Networks (refer below) and SME support organizations will be strengthened to promote early and systematic business succession, and the framework for business matchup support such as through small-scale M&A schemes, will also be strengthened. (Ongoing)

3. System of deferral and exemption of payment of inheritance tax and gift tax on non-listed shares (business succession taxation scheme) [Taxation scheme]

(1) Pursuant to the Fifth Comprehensive Decentralization Law, authorization of the business succession taxation scheme will be transferred from regional bureaus of economy, trade and industry to prefectural governments, so that applications and approvals could be processed at prefectural offices that are more familiar to most enterprises. (Ongoing)

(2) The business succession taxation scheme will be expanded as follows. (Ongoing)

○Review of employment requirements

The employment requirements for businesses with less than five employees will substantially relaxed (4 → 3 employees, 3 → 2 employees, 2 → 1 employee will be approved), and a safety net (flexibility of employment requirements) will be implemented to respond to the difficulty of maintaining employment at times of disaster or other drastic change in the business environment.

○Promotion of living donations

The amount of tax payment at the time of revocation of the gift tax payment grace period will be the same amount as inheritance tax by allowing the combined application of the taxation system for settlement at the time of inheritance, and the growth inhibiting changeover requirements at the death of the predecessor will be partially abolished (SME

requirements, requirements for non-listed shares).

*In addition to the above, further convenience will be achieved by streamlining procedures.

4. Comprehensive support under the Management Succession Facilitation Act

The Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises incorporates comprehensive support for business successions, involving special treatment under the Civil Code to resolve the constraints on legally secured portions of successions. Confirmations of qualification for this special treatment will be granted by the Minister of Economy, Trade, and Industry. (Ongoing)

5. Support to facilitate business successions [Included in SMRJ subsidy program]

For wide-ranging and in-depth support for SME business successions throughout Japan, various events will be held to provide training for SME support providers and raise SME managers' awareness through business succession forums. (Ongoing)

6. Program for the creation of business succession networks

[Fiscal 2017 budget: Included in ¥1.1 billion]

Business succession networks will be created in the regions, operated by support organizations based in each prefecture in cooperation with local government bodies. Through these networks, (1) prefectural frameworks for business succession support will be established, (2) business succession consultations will be implemented to promote early, systematic business succession, and (3) a cooperative framework for business succession support will be built. (New)

7. Subsidy for business startups and succession (business succession)

[Fiscal 2017 budget: Included in ¥1.1 billion]

Support will be provided to (1) SMEs engaging in business innovation and (2) SMEs attempting a business transformation on occasion of business succession (incl. business succession accompanying business regeneration) in the form of a subsidy for the necessary expenses for capital investment, market expansion, and abolishment of the existing business (up to (1) ¥2 million and (2) ¥5 million at a subsidy rate of 2/3). (New)

Section 3 Cash-flow assistance and business generation support

1. Safety net loans

[Fiscal investment and loan program]

The safety net loan program provides loans worth up to a total of ¥720 million (from JFC's SME Unit and the Shoko Chukin Bank) and ¥48 million (from JFC's

Micro Business and Individual Unit) to SMEs that have experienced, for example, a temporary decline in sales or profits caused by the effects of changes in the social or economic environment. In fiscal 2017, an interest rate incentive will be given to support the cashflow of SMEs and micro-businesses, where they receive management support from a certified support organization or engage in initiatives to maintain and/or increase employment amid difficult business conditions. (Ongoing)

2. Managerial Improvement Loans (Marukei Loans) for micro businesses

[Fiscal 2017 budget: Included in ¥4.25 billion]
[Fiscal investment and loan program]

In order to provide financial support to micro businesses, the JFC will provide unsecured and unguaranteed low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. (Ongoing)

3. Micro business management development support loans

[Fiscal 2017 budget: Included in ¥4.25 billion]
[Fiscal investment and loan program]

To support sustainable business development by micro businesses, JFC will offer low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry certified under a management development support plan. (Ongoing)

4. Promotion of subordinated lending

[Fiscal 2017 budget: Included in ¥16.13 billion]
[Fiscal investment and loan program]

The subordinated lending program is a financing mechanism of the JFC, which solicits joint financing from the private sector to stabilize the financing of SMEs and micro-businesses by providing them with high-risk, long-term, “bullet loans” (capital funds) to enhance their financial underpinnings. The program will continue to be implemented in fiscal 2017. (Ongoing)

(Note) Loans under this program are limited bullet loans. In the event that the SME or micro-business taking out the loan enters legal bankruptcy, its repayment precedence is subordinated to other claims. By designing the program so that the interest rate is tied to the success rate for loan repayments in each period, these subordinated loans can be taken to be equity in financial inspections.

5. SME and micro-business management enhancement loan/guarantee program

[Fiscal 2017 budget: ¥1.7 billion]

[Fiscal investment and loan program]

On the premise that support is provided by approved support agencies, the management of SMEs and micro-businesses will be strengthened through measures such as low-interest loans from the JFC (0.4% below the standard rate for women, young people and senior business startups) for business startups, businesses expansions, and cultivation of new business fields. (Ongoing) (Cited earlier)

6. Encouragement of refinancing guarantees

To relieve repayment burdens by consolidating multiple outstanding debts, credit guarantee corporations will continue to provide refinancing guarantees in fiscal 2017. (Ongoing)

7. Safety-net Guarantees

Credit guarantee corporations will provide guarantees separate from ordinary guarantees to SMEs experiencing a management instability due to a bankruptcy of their business partner, a natural disaster, or the streamlining of operations by their main financial institution (100% guaranteed in principle, for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). (Ongoing)

8. Management support by credit guarantee corporations [Fiscal 2017 budget: ¥1.3 billion]

Credit guarantee corporations will provide management support such as through the dispatch of experts, to users of credit guarantee corporations, (potential) entrepreneurs planning to utilize a credit guarantee corporation, and SMEs and micro-businesses that engage in management improvement, in cooperation with regional financial institutions, in combination with cash-flow support. (Ongoing)

9. Program to assist with formulating management reform plans by approved support agencies

To promote management reform by SMEs and micro-businesses that are unable to formulate management reform plans on their own, the program will subsidize part (two-thirds) of the costs needed by approved support agencies (certified public tax accountants, lawyers, financial institutions, etc.) under the Act on Strengthening the Management of SMEs, etc., to provide SMEs and micro-businesses assistance in formulating management reform plans, as well as follow-up for those plans. From fiscal 2017, support will be provided in formulating management reform plans including cash flow statement, etc. at the early stage. (Ongoing)

10. SME Revitalization Support Councils

[Fiscal 2017 budget: Included in ¥6.11 billion]

The SME Revitalization Support Councils established at the chambers of commerce and industry and similar

entities in each prefecture will provide SMEs and micro-businesses that have profitable businesses but face financial problems with advice on solving their problems through consultation services, and will assist with the drafting of revitalization plans that also include coordination with relevant financial institutions and similar entities. (Ongoing)

11. SME Rehabilitation Plan through Succession (secondary companies)

Where an SME rehabilitation plan through succession is authorized under the Industrial Competitiveness Enhancement Act and business succession occurs as set out in that plan, measures will be implemented to support financing, along with special provisions for permissible succession. (Ongoing)

12. SME revitalization funds

In order to deliver the funds needed by SMEs to implement their revitalization plans and provide them with financing and management support, the SMRJ, regional financial institutions, and credit guarantee corporations in unison will promote the establishment and utilization of regional funds to assist local SMEs' revitalization efforts and national funds to assist SMEs' revitalization efforts over a wide area. (Ongoing)

13. Promotion of the use of "Guidelines for Personal Guarantees Provided by Business Owners"

[Fiscal 2017 budget: ¥100 million]

To promote the use of the "Guidelines for Personal Guarantees Provided by Business Owners" published on 5 December 2013, help desks set up in the regional headquarters of the SMRJ in fiscal 2013 and specialist dispatch services for people who want to use the guidelines, will continue to be implemented. Financing and guarantee systems by public sector financial institutions independent of business owner guarantees will also continue to be implemented. Furthermore, to allow the guidelines to spread and take root as a loan practice, examples of favorable initiatives that should be widely implemented will continue to be collected and disclosed, and measures will continue to be implemented to disseminate the guidelines to SMEs and micro-businesses. (Ongoing)

14. Enhanced management support for financial administration among SMEs and micro-businesses

Based on the financial monitoring policy, financial institutions will be encouraged to provide advice and financing to enterprises through proper assessment of the business performance and growth potential of borrower companies (business assessment) without relying excessively on security and guarantees. (Ongoing)

15. Creation of a new low-cost trade insurance for corporate entities related to agriculture, forestry and fisheries

Measures will be taken to promote the utilization of new insurance that expands the scope of the SME export credit insurance that is appreciated by SMEs for its low premium rate to corporate entities related to agriculture, forestry and fisheries. (Ongoing)

16. Financial support for SMEs in Okinawa [Fiscal investment and loan program]

Regarding support for SMEs in Okinawa delivered via the Okinawa Development Finance Corporation (ODFC), the operations and initiatives undertaken by JFC will be performed as usual, and ODFC's own system of lending will be expanded to meet the specific needs of businesses in Okinawa. (Ongoing)

Section 4 Human resource and employment measures

1. Program to support regional SMEs acquire human resources

[Fiscal 2017 budget: Included in ¥1.67 billion]

To help SMEs and micro-businesses with few management resources acquire human resources, support will be provided in excavating, introducing and retaining human resources that are sought by local SMEs and micro-businesses from within and outside the region, in consideration of regional characteristics. (Ongoing)

2. Support program for development of core human resources in SME service industries

[Fiscal 2017 budget: Included in ¥1.67 billion]

To develop next-generation managers, the program will match up next-generation management personnel in the services industries with enterprises engaging in outstanding initiatives, and organize hands-on training. From fiscal 2017, particular efforts will be made to organize many programs that provide diverse training over varied durations. (Ongoing)

3. Smart manufacturing support program and program for development of core human resources in manufacturing industries

[Fiscal 2017 budget: Included in ¥1.67 billion]

The smart manufacturing support program will promote productivity improvement and new business cultivation by SMEs and micro-businesses in manufacturing industries. Support will be provided to businesses that implement training that provides versatile leadership skills to human resources having rich experience in the production field and those possessing knowledge of IoT and robots, and that dispatch such leaders to SMEs and micro-businesses in manufacturing industries. Additionally, smart

manufacturing support bases will be established, so that regional SMEs and micro-businesses in manufacturing industries can casually receive consultation on Kaizen and other such platforms that utilize IoT and robots.

The program for development of core human resources in manufacturing industries will provide a subsidy to cover the expenses required by core human resources in SME and micro-business manufacturing sites to receive technology and skills enhancement training. (Ongoing)

4. Program for development of Kaizen leaders (service industry school)

[Fiscal 2017 budget: Included in ¥1.67 billion]

To increase productivity in the service industry through human resource development, training will be implemented to provide practical skills and knowledge that are useful to service personnel. In fiscal 2017, the subsidy rate will be changed from 2/3 to 1/2, and training schools will also be established in locations outside of Tokyo and Osaka, to provide training opportunities to even more people. (Ongoing)

5. Program for development of human resources to support micro businesses

[Fiscal 2017 budget: 200 million]

Training for improving business guidance skills will be provided nationwide by business leaders in societies and chambers of commerce and industry. (Ongoing)

6. Program for development of human resources to support SMEs [Fiscal 2017 budget: 115 million]

Community development leaders will be developed by providing classroom training and practical internship training on business startup and management skills and skills that are particularly required for community development, such as vacant store countermeasures and consensus building methods. (Ongoing)

7. Human resource development program at the Institute for Small Business Management and Technology

Training will be provided at nine Institutes for Small Business Management and Technology around Japan in improving the abilities of SME support personnel, as well as training for SME proprietors, managers, and people in similar positions designed to lead directly to the solution of business challenges. (Ongoing)

8. Support program for development of hometown producers

[Fiscal 2017 budget: Included in ¥1.35 billion]

Support will be provided to initiatives that aim to develop attractive products that involve local people and local resources into local brands and initiatives

for developing human resources who could become central players in cultivating markets and attracting people to the regions. (Ongoing)

9. Measures to maintain workers' employment

[Fiscal 2017 budget: ¥7.95 billion]

Employment Adjustment Subsidies will be provided to assist employers who are forced to downsize due to fluctuations in business conditions or other economic reasons but who keep workers on by allowing workers to take temporary leave from work or enter training, or by transferring workers. Active steps will also be taken to prevent fraudulent receipt of these subsidies, and efforts will be made to ensure more appropriate disbursement by such means as actively carrying out on-site checks and publishing the names of employers who have committed fraud. (Ongoing)

10. Support for improvement of employment management toward the creation of attractive employment [Fiscal 2017 budget: ¥10.8 billion]

To support corporate initiatives to improve their employment management and create attractive employment, the subsidy for supporting workplace retention will be provided to SME organizations (business cooperatives, etc.) having improvement plans certified by the relevant prefectural governor pursuant to the Act on the Promotion of Improvement of Employment Management in Small and Medium-Sized Enterprises for Securing Manpower and Creating Quality Jobs, where they have implemented projects to improve their working environment. The subsidy will also be provided to SMEs and micro-businesses that introduce and implement a new employment management system by changing their labor agreements and workplace regulations, or lower the job separation rate of their employees. It will also be applied to business owners of child care and nursing care services that lower the job separation rate of their employees by developing a proper wage system.

In fiscal 2017, the subsidy for introducing assistive nursing care products will be divided into the subsidy for introducing assistive nursing care products and the subsidy for lowering employee job separation rates. (Ongoing)

11. Project for promoting the improvement of employment management plans to secure human resources in sectors that lack personnel [Fiscal 2017 budget: ¥540 million]

Support will be provided for the creation of attractive workplaces, such as by supporting the introduction of employment management systems, in cases where business owners in sectors that lack personnel improve employee benefits and working environments or otherwise take measures to improve employment management and secure human resources. (Ongoing)

(1) Model survey course

In sectors where employment management issues that need to be addressed by business owners are not yet clear, fine-tuned consultation will be provided to business owners facing an employment management issue, to help them introduce and operate various models of employment management systems that contribute to resolving their issue. Case examples of model initiatives obtained in this process of consultation will be examined and analyzed in terms of their introduction effect and knowhow, and effective employment management improvement policies will be explored based on the characteristics of each sector and widely disseminated for awareness-raising.

(2) Practical awareness-raising course

Among sectors that lack sufficient personnel, business owners in the construction sector who face an issue in implementing improvement measures for employment management will be offered consultation support by advisors for employment management improvement, with the aim of promoting practical employment management improvement within the entire industry.

12. Regional employment development subsidy (regional employment development course)
[Fiscal 2017 budget: ¥3.39 billion]

To create and provide stable regional employment, employers who build or establish an office in regions, etc. where employment opportunities are particularly lacking and who also employ regional job seekers will be offered a regional employment development subsidy (regional employment development course) in accordance with the cost of their establishment and the number of workers they employ. (Ongoing)

13. Employment creation project for regional revitalization [Fiscal 2017 budget: ¥5.12 billion]

To promote initiatives for creating employment opportunities in the regions for regular employees, an employment creation project for regional revitalization will be implemented in support of the regular employment creation project being undertaken by prefectural governments integrally with industrial policies. (New)

14. Tax system to promote employment
[Taxation scheme]

Where enterprises satisfy certain requirements and create high-quality employment (fulltime, non-fixed-term employment) in regions that lack employment opportunities (Employment Development Promotion Regions based on the Act on Promotion of Job Opportunities in Certain Regions) in each fiscal year starting between 1 April 2016 and 31 March 2018, a tax measure will be implemented that provides a tax credit of ¥400,000 for each increase in employee. (Ongoing)

15. Promotion of employment shifts with no loss of employment [Fiscal 2017 budget: ¥9.67 billion]

A subsidy will be provided to business owners who employ the services of a private-sector employment agency to support the reemployment of employees who unavoidably lose their jobs due to business downsizing, etc. (workers who fall under a re-employment support plan).

Additionally, funds that are provided to growth enterprises that build capacities and increase the wages of workers who fall under a re-employment support plan or workers who have transferred from a different company will be expanded, and a new fund will be created to support growth enterprises that expand their employment of mid-career recruits upon developing an ability assessment, wage and treatment system for mid-career recruits. (Ongoing)

16. Welfare Worker Recruitment Project
[Fiscal 2017 budget: ¥1.63 billion]

“Welfare Worker Corners” will be expanded, and matching services will be strengthened in the welfare sector (nursing, healthcare and day care). (Ongoing)

17. Promotion of the Youth Support Project

SMEs that display a positive attitude toward recruiting and developing young workers and actively publicize information about their company will be designated as “youth support companies” and encouraged in their effort to disseminate information. (Ongoing)

18. “Youth Yell” certification system based on the Act on Promotion of Youth Employment

Based on the Act on Promotion of Youth Employment (1970 Act no. 98), the Minister of Health, Labour and Welfare certifies SMEs that display outstanding employment and management of youths as “youth yell” certification enterprises. By encouraging the information dissemination efforts of SMEs, the system supports the smooth employment of human resources sought by certified enterprises. (Ongoing)

19. Subsidy for employment and development of designated job seekers (course for employment and development of long-term unstable workers)
[Fiscal 2017 budget: ¥530 million]

A subsidy for employment and development of designated job seekers (course for employment and development of long-term unstable workers) will be provided to business owners who employ workers who have repeatedly changed jobs as freeters after having missed the opportunity to find employment as regular employees (long-term unstable workers) during the “employment ice age,” as regularly employed workers by introduction from an employment agency. (Ongoing)

20. Subsidy for employment and development of designated job seekers (course for employment and retention of non-new graduates within three years after graduation, etc.)

[Fiscal 2017 budget: ¥1.83 billion]

To expand opportunities for non-new graduates and non-graduates to apply for employment as new graduates and promote their retention, a subsidy for employment and development of designated job seekers (course for employment and retention of non-new graduates within three years after graduation, etc.)* will be provided to business owners who put a call out for new graduate job seekers to which non-new graduates, etc. can apply, employ a non-new graduate, etc. as a new graduate for the first time, and retain them for a certain period of time. (Ongoing)

*In fiscal 2017, the subsidy for employment and retention of non-new graduates within three years after graduation, etc. has been incorporated as a course under the subsidy for employment and development of designated job seekers.

21. Support for SMEs and micro-businesses in raising the minimum wage

[Fiscal 2017 budget: ¥1.2 billion]

The following support measures will be provided to increase the productivity of SMEs and micro-businesses, toward raising the minimum wage.

- (1) “Comprehensive Minimum Wage Advice and Assistance Centers” will be established throughout Japan (47 locations) as a one-stop portal for consultation on management reforms and work condition management, to provide consultation and dispatch experts free of charge.
- (2) Subsidies will be provided to national and prefectural-level industry-specific SME organizations to cover the cost they require to implement initiatives for increasing productivity, such as by conducting market surveys and developing new business models for expanding their market with an eye to increasing wages.
- (3) Subsidies will be provided to SMEs and micro-businesses in 47 nationwide prefectures, to cover part of the capital investment they make to increase labor productivity and increase the wages of workers who work for less than ¥1,000 an hour in their business establishments by more than a certain amount (subsidy rate of 7/10 (3/4 for micro businesses with a workforce of 30 or less)). (Ongoing)

22. Dissemination and promotion of career consulting services

The utilization of career consulting (offering advice and guidance in response to consultations concerning occupational selection by workers, occupational life planning, or the development and improvement of occupational capacities) will be disseminated

and promoted in private employment agencies, employment support organizations, personnel management and human resource development departments in companies, and career education in schools. In April 2016, career consultants, who engage in career consulting as a specialty, were designated as a national qualification, so efforts will be made to disseminate the qualification. Additionally, the introduction of a “self career examination” will continue to be promoted among enterprises as a scheme for offering regular career consultation opportunities at certain junctions of their employees, such as age, number of years in employment, promotion to a post, etc., to support employee awareness of career development. (Ongoing)

23. Taxation scheme to promote income expansion [Taxation scheme]

Enterprises whose (1) total amount of salaries and other amounts paid have increased from fiscal 2012 at a certain rate or more, (2) total amount of salaries and other amounts paid exceed that of the previous business year, and (3) average salary and other amounts paid exceed that of the previous business year will receive a 10% tax credit on the amount of increase in salary and other amounts paid from fiscal 2012 (up to 10% of corporate tax (20% for SMEs)). Under the fiscal 2017 tax reform, SMEs will receive an additional 12% tax credit on the amount of increase in salary and other amounts paid from the fiscal year in cases where average salary and other amounts paid have increased by more than 2% from the previous fiscal year. (New)

Chapter 3 Facilitating business activities contributing to regional economies

Section 1 Utilization of local resources

1. Certification of management development support plans based on the Small Business Support Act

Management development support plans that are formulated and implemented by micro businesses with support from societies and chambers of commerce and industry as part of their “accompaniment” style of support of micro businesses based on the Small Business Support Act, will be certified. (Ongoing)

2. Micro business promotion program [Fiscal 2017 budget: ¥4.94 billion]

Support for micro businesses will be promoted through the “accompaniment” style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support will be provided for the formulation of business plans and market development in consideration of demand by micro businesses.

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers of commerce and industry will cooperate with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets. (Ongoing)

3. Program for supporting hometown specialty products [Fiscal 2017 budget: ¥1.35 billion]

Support will be provided to SMEs and micro-businesses that engage in the development of new products and services and the development of new markets by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses. Support will also be provided to businesses that pursue product development by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses in the form of information provision concerning consumer preferences surveyed by general incorporated associations and matching services. (Ongoing)

4. JAPAN Brand Development Assistance Program [Fiscal 2017 budget: Included in ¥1.35 billion]

To facilitate overseas expansion by SMEs, support will be provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development

based on those strategies and participation in overseas trade fairs. (Ongoing) (Cited earlier)

5. Designation of traditional crafts

Under the Act on the Promotion of Traditional Craft Industries (referred to hereinafter as the Traditional Craft Industries Act), a traditional craft will be designated, or a change in designation will be made, following surveys and investigations of craft products for which traditional craft product status has been requested, subject to the views of the Industrial Structure Council. (Ongoing)

6. Traditional Craft Product Subsidy Program [Fiscal 2017 budget: ¥1.21 billion]

(1) Based on the Traditional Craft Industries Act, the following support will be provided to promote the traditional crafts industries.

1) Subsidization of the following programs undertaken by local manufacturing cooperatives and associations:

- Successor training programs
- Raw materials sourcing programs
- Design development programs
- Partnership development programs
- Local producer programs, etc.

2) Subsidization of the following programs undertaken by general incorporated associations and incorporated foundations under Article 23 of the Traditional Craft Industries Act:

- Programs to secure human resources and ensure transmission of skills and techniques
- Production district guidance programs
- Promotional programs
- Demand development programs, etc.

(2) Promotion of production region brands

To help attract tourists to regions where traditional crafts are produced and cultivate overseas markets, support will be provided to initiatives that aim to invite designers or other external human resources to such regions.

7. Program to promote the spread of traditional crafts

To promote public awareness of traditional crafts, November every year has been designated Traditional Crafts Month, and activities such as the national convention of the Traditional Crafts Month National Assembly are held to spread and increase awareness of traditional crafts. (Ongoing)

Section 2 Revitalization of shopping districts and city centers

1. Comprehensive support for the revitalization of local shopping districts

Pursuant to the Local Shopping District Revitalization Act, support measures will be established for shopping districts with a government-approved revitalization project plan. (Ongoing)

2. Development of human resources by the Japan Shopping District Support Center

Support will be provided in the form of personnel training and transfer of expertise by the Japan Shopping District Support Center, an organization established jointly by four SME associations. (Ongoing)

3. Program to support the operation of Councils for the Revitalization of Central Urban Districts [Included in SMRJ subsidy program]

Support will be provided for the provision of advisory services, provision of information via websites and e-mail newsletters, and development of networks through the organization of exchange events led by support centers established in the SMRJ to assist the establishment and operation of Councils for the Revitalization of Central Urban Districts. (Ongoing)

4. Program to dispatch advisers for city center and shopping district revitalization [Included in SMRJ subsidy program]

Experts in a range of fields related to commercial revitalization registered with SMRJ will be dispatched to help tackle various challenges faced by Councils for the Revitalization of Central Urban Districts. (Ongoing)

5. Consultation and support for commercial revitalization in city centers [Included in SMRJ subsidy program]

In order to assist commercial revitalization initiatives being undertaken in city centers by Councils for the Revitalization of Central Urban Districts and similar organizations, seminar planning support and instructors will be supplied, and advice, analyses, assistance with identification of issues, and information, etc. will be provided to raise the efficacy of individual projects using the SMRJ's specialized know-how. (Ongoing)

6. Enterprise vitality enhancement funding [Fiscal investment and loan program]

Japan Finance Corporation (JFC) will provide loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, minimize vacant houses and stores, and promote the

development of SME subcontractors. (Ongoing)

7. Program to support commercial revitalization in local communities and town centers [Fiscal 2017 budget: ¥1.78 billion]

Support will be provided to initiatives such as for providing childcare and elderly care services in shopping districts, attracting businesses to vacant stores, and developing commercial complexes in city centers. Support will also be provided for the coordinated initiatives of individual stores in a shopping district to cultivate markets and develop new products. (Ongoing)

8. Taxation measures to revitalize central urban districts [Taxation scheme]

Under the "Specific private sector central urban district economic activity improvement program" set up under the revisions to the Act on the Vitalization of City Centers, a measure for the acquisition of an immovable property will be implemented that halves the registration and license tax payable when ownership of that immovable property is registered or a transfer is registered. (Ongoing)

Section 3 Other regional revitalization measures

1. Support to encourage enterprises to locate in regional areas

To promote businesses that have a large ripple effect on local economies, such as new businesses that take advantage of regional strengths and are launched in potential growth sectors, based on discussions by a meeting of the regional economy and industry committee of the Industrial Structure Council held in fiscal 2016, a bill for a partial amendment of the Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc. has been submitted to the 193rd ordinary Diet session. Upon passage of the bill, concentrated support will be provided to businesses that drive regional economies in combination with various policy measures such as new taxation and/or subsidy systems, financial measures, and deregulations.

2. Local 10,000 Projects (Subsidies for business generating regional economic activity) [Fiscal 2017 budget: Included in ¥1.87 billion]

To support the startup of region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) through the collaboration of industry, academia, financial institutions and government, subsidies will be granted to cover part

of the cost of subsidies provided by local public organizations for expenditure required by private sector businesses at the business establishment phase. (Ongoing)

3. Taxation scheme to strengthen the regional location of enterprises

[Taxation scheme]

In order to revitalize the regions, it is necessary to correct the over-concentration of population and industry in Tokyo and create good quality employment in the regions. Toward this end, enterprises will be encouraged to relocate their head office functions (offices, research institutions, training centers) from Tokyo to the regions or to expand their business in the regions, by continuing to offer certified enterprises a choice of either a 15% special depreciation deduction on the cost of acquisition of an office building (25% in the case of relocation) or a 4% tax credit on the cost of acquisition (7% in the case of relocation), and offering enterprises that create employment in the region a special measure under the taxation scheme to promote employment and a local tax grant related to strengthening regional corporate centers. Additionally, under the fiscal 2017 tax reform, the measure to raise the tax credit rate for office taxes will be extended, the taxation system to promote employment will be enhanced, the requirements for business relocations will be relaxed, and the measure to cover revenue decreases using the local allocation tax will be strengthened. (Ongoing)

4. Program for creation and support of regional core enterprises

[Fiscal 2017 budget: ¥2.5 billion]

To support the initiatives of potential regional core enterprises to foray into new sectors or businesses and promote their growth, support will be provided for the creation of nationwide networks with external resources (universities, cooperating enterprises, financial institutions, etc.) using support personnel. Additionally, for further growth of regional core enterprises, support personnel will provide hands-on support for formulating business strategies, cultivating markets, and other such business activities. Furthermore, support will be provided for the formulation of business strategies and the cultivation of markets with an eye to the global market, through the Global Network Council composed of global coordinators who are experts in businesses that are suitable for the global market. (Ongoing)

5. Promotion of initiatives for the creation of regional core city spheres

[Fiscal 2017 budget: Included in ¥130 million]

Projects to support the creation of regional core city spheres will be commissioned under national

expenditure, and regional fiscal measures will be applied to core cities and municipalities that have formulated a regional core city sphere vision, to support initiatives that contribute to driving economic growth in the sphere as a whole, consolidating and strengthening high-level city functions, and improving lifestyle-related functions and services. (Ongoing)

6. Fund for productivity improvement in the tourism industry, etc.

[Fiscal investment and loan program]

To revitalize the Japanese economy by improving productivity in the tourism industry, etc. and increasing tourism income, JFC will provide loans to SMEs that provide high-quality services, etc. (New)

7. Loan program for supporting regional core enterprises

[Fiscal investment and loan program]

Medium enterprises and SMEs that are core regional presences having a certain influence on their regional economy will be supported in their initiatives to achieve innovation such as by advancing into a new sector or making strategic initiatives for management improvement by providing long-term, lump-sum repayment and successful interest payment-type loans through a loan program for supporting regional core enterprises via the Shoko Chukin Bank. (Ongoing)

8. Loan system for supporting regional collaborations

[Fiscal investment and loan program]

Business cooperative associations and enterprise partnerships that utilize local resources will be supported in their initiatives to develop a new business, utilize local resources, form a business tie-up or restructure their organization, through a loan system that provides long-term, lump-sum repayment and successful interest payment-type loans via the Shoko Chukin Bank. (Ongoing)

Chapter 4 Developing a system for supporting micro businesses through community-wide collective efforts

Section 1 Strengthening management support frameworks

1. Micro business promotion program

[Fiscal 2017 budget: ¥4.94 billion]

Support for micro businesses will be promoted through the “accompaniment” style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support will be provided for the formulation of business plans and market development in consideration of demand by micro businesses.

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers of commerce and industry will cooperate with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets. (Ongoing) (Cited earlier)

2. Programs promoting measures to support cooperative SME organizations

[Fiscal 2017 budget: ¥680 million]

Where partnerships or other associations work on management innovation and/or reforms through the National Federation of Small Business Associations, which is a dedicated agency assisting cooperative SME organizations, support will be provided that includes partial subsidies for the costs of implementing those innovations or reforms, along with training for instructors. Support will also be provided for optimizing the activities of associations (supervision organizations) that engage in the training of foreign intern trainees. (Ongoing)

3. Support for capital investment through advancement programs integrated with business support

Where SMEs work jointly to establish business cooperatives in order to shore up their administrative platforms and improve their business environment, the SMRJ and prefectural governments will collaborate to provide consultation and advice on business plans together with long-term, low-interest (or interest-free) loans to fund the required capital expenditure. (Ongoing)

4. One-stop comprehensive support programs for SMEs and micro-businesses

[Fiscal 2017 budget: ¥5.48 billion]

“Yorozu support centers” will be set up in each

prefecture as one-stop consultation centers for SMEs and micro-businesses facing various management issues, to provide professional detailed advice, and specialist advisors will be dispatched to deal with particularly advanced and specific management issues. (Ongoing)

5. Promoting the utilization of local benchmarks

Initiatives that aim to enhance management or increase productivity will continue to be promoted, through business assessments of enterprises utilizing local benchmarks. For example, the establishment of an enterprise support platform and human resource development scheme utilizing local benchmarks will be considered. At the same time, these initiatives will be linked to the policies of relevant ministries. (Ongoing)

Chapter 5 Other policies for promotion of micro businesses

Section 1 Support for SMEs and micro-businesses in disaster-affected regions

1. Loan ceilings and lowering of interest rates on Managerial Improvement Loans (Marukei loans) and Managerial Improvement Loans for Environmental Health Business Loans (Eikei loans) [Fiscal investment and loan program]

The loan ceilings for unsecured, unguaranteed and low-interest Marukei and Eikei loans provided by the JFC to micro businesses affected directly or indirectly by the Great East Japan Earthquake or the 2016 Kumamoto Earthquake will be raised and interest rates will be lowered on a continuous basis. (Ongoing)

2. Finance policy program

[Fiscal 2017 budget: Included in ¥13.9 billion]
[Fiscal investment and loan program]

To assist SMEs and micro-businesses affected by the Great East Japan Earthquake and Kumamoto Earthquake with their cash-flow issues, the Japan Finance Corporation (JFC) (SME Unit and Micro Business and Individual Unit) and the Shoko Chukin Bank will provide the Great East Japan Earthquake Recovery Special Loan Program and the 2016 Kumamoto Earthquake Special Loan Program (commenced in June 2016) on a continuous basis in fiscal 2017. For SMEs and micro-businesses with business establishments located in restricted areas or similar zones when they were imposed following the nuclear accident in Fukushima triggered by the Great East Japan Earthquake and SMEs and micro-businesses with business establishments and other assets that were completely destroyed or swept away by the earthquake or tsunami, measures for effectively eliminating the burden of interest payments on loans through prefectural level foundations and similar institutions have been created in fiscal 2011 (measures as of 22 August 2011), and will continue to be implemented in fiscal 2017. (Ongoing)

3. Credit guarantee program

To assist SMEs and other businesses affected by the Great East Japan Earthquake, a new guarantee system was established in fiscal 2011 as a separate framework from existing ordinary guarantees, disaster-related guarantees and safety net guarantees. The system will continue to be implemented in fiscal 2017 in specific disaster affected areas (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans).

Additionally, in the wake of the Kumamoto Earthquake that occurred in April 2016, Safety-net Guarantee No. 4 was applied to all areas of Kyushu (sequentially from April 14, 2016), and disaster-related guarantees were also applied to all areas of Kumamoto prefecture (from April 26, 2016). These guarantees will continue to be applied in fiscal 2017 as necessary, upon an assessment of the damage situation. (Ongoing)

4. “Special Finance for Small and Medium Enterprises in the Specified Area” affected by the nuclear disaster

In order to assist SMEs and other businesses that have offices in regions affected by the nuclear power plant accident, long-term, interest-free, unsecured loans will be offered to provide business funds (working capital and capital expenditure) required to continue or resume business in Fukushima prefecture. (Ongoing)

5. Business revival assistance from Industrial Recovery Consultation Centers and Industry Reconstruction Corporations

[Fiscal 2017 budget: ¥1.39 billion*]

Support will continue to be provided for the revival of SMEs damaged by the Great East Japan Earthquake through Industrial Recovery Consultation Centers that have been established in fiscal 2011 by expanding on the framework of SME Revitalization Support Councils in each affected prefecture and Industry Reconstruction Corporations that have been established to purchase accounts receivable, etc. (Ongoing)

*Special account for reconstruction from the Great East Japan Earthquake. Of the six affected prefectures, the expenses of the SME Revitalization Support Councils and Industrial Recovery Consultation Centers in Aomori, Ibaraki and Chiba will be transferred to the general account from the fiscal 2017 budget.

6. Business revival assistance from the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake

To cope with the overlapping debt problems of earthquake-affected businesses, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake will provide assistance such as helping to relieve the repayment burdens for existing debts. (Ongoing)

7. Reduction of interest burden during assessment of the potential for business regeneration

This program supports the early business revival of SMEs and micro-businesses that have suffered damage in the Great East Japan Earthquake or the nuclear power plant accident in Fukushima, by reducing the interest burden of those who work with an Industrial Recovery Consultation Center to rebuild their business. More specifically, it defrays the cost of interest that such businesses incur during the period they receive assistance from an Industrial Recovery Consultation Center to formulate a regeneration plan. The program was established in fiscal 2011 and will continue to be implemented in fiscal 2017. (Ongoing)

8. Lease subsidy program to support SMEs in disaster-affected areas

In order to reduce the burden of overlapping debt borne by disaster-affected SMEs, SMEs burdened with lease obligations due to leased equipment that was lost during the Great East Japan Earthquake will be provided with subsidies equivalent to 10% of the cost of the new leases to re-install the equipment. (Ongoing)

9. Post-disaster recovery project on joint facilities of small and medium business associations, etc.

- The Great East Japan Earthquake

[Fiscal 2017 budget: ¥21 billion]

In order to promote the restoration and reconstruction of areas affected by the Great East Japan Earthquake, the following subsidies will be provided in support of the recovery of facilities held by groups of disaster-affected SMEs and others.

- (1) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of restoration work on facilities and equipment required for implementation of restoration work planned by groups of SMEs and approved by the prefecture as making an important contribution to the regional economy and maintaining employment
- (2) Subsidization by the national government (one half) of the cost of disaster recovery projects such as for Societies of Commerce and Industry and other such instruction and consultation facilities for SMEs (Ongoing)

10. Projects for development of temporary facilities and subsidies for effective utilization of temporary facilities

[Fiscal 2017 budget: Included in ¥650 million]

Temporary facilities will continue to be developed, where such facilities are needed such as to resume business in regions that have not yet achieved full-scale reconstruction. Additionally, to promote the effective utilization of temporary facilities, subsidies will be provided to disaster-affected municipalities to cover the costs for the construction, relocation and removal of temporary facilities. (Ongoing)

11. Loans for restoration and development of facilities and equipment

- The Great East Japan Earthquake

SMRJ and prefectures will cooperate in supporting SMEs that suffered damage in the Great East Japan Earthquake by providing loans for the repair and development of facilities and equipment that they need to implement restoration plans approved by the prefecture. (Ongoing)

- The 2016 Kumamoto Earthquake

SMRJ and prefectures will cooperate in supporting SMEs that suffered damage in the 2016 Kumamoto Earthquake by providing loans for the repair and development of facilities and equipment that they need to implement restoration plans approved by the prefecture. (Ongoing)

12. Program to create employment that promotes business recovery

In order to create stable employment in disaster affected areas, support will be provided in the area of employment in accord with industrial policies. (Ongoing)

Furthermore, the program will be expanded to subsidize the costs of housing support to a certain extent. (New)

13. Establishment of special help desks

Special help desks that are set up at offices of the JFC, the Shoko Chukin Bank, credit guarantee corporations, chambers of commerce and industry, federations of societies of commerce and industry, federations of small business associations, regional head offices of the SMRJ, and bureaus of economy, trade and industry nationwide will provide detailed business and financial advice to SMEs and other enterprises affected by the Great East Japan Earthquake, etc. (Ongoing)

14. Navigation dial for SME phone consultations

To help SMEs that do not know where to go for advice, a “Navi Dial for SME phone consultations” help line will connect callers to their nearest Bureau of Economy, Trade, and Industry by dialing a single telephone number. (Ongoing)

15. Consideration for SMEs in disaster-affected regions by the government and other public agencies

Consideration for SMEs and micro-businesses in regions affected by the Great East Japan Earthquake and 2016 Kumamoto Earthquake will be included in the Basic Policy on State Contracts with Small and Medium Enterprises that is formulated every year, and the following initiatives will be disseminated.

- (1) The Minister for Economy, Trade and Industry will explain the purport of the Basic Policy in writing to

the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards, and also request that they make efforts to increase opportunities for SMEs and micro-businesses to receive orders.

- (2) Information sessions (Councils to Promote Local Access to Public Sector Demand) will be held throughout Japan to actively disseminate the Basic Policy in regional areas.
- (3) A “Guide to Contracts in the Public Sector” will be produced and distributed to central and local government agencies and other commerce and industry-related organizations. (Ongoing)

16. Victims’ Employment Development Subsidy Program

[Fiscal 2017 budget: ¥30 million]

Subsidies will be provided to employers who hire workers who lost their jobs due to the Great East Japan Earthquake and job seekers living in affected areas as a result of referrals from “Hello Work” employment offices and similar agencies, provided that such workers are expected to be employed continuously for a period of at least one year. Bonus subsidies will be additionally provided to employers hiring 10 or more such workers. (Ongoing)

17. Guidance and advice on measuring radiation levels

[Fiscal 2017 budget: ¥30 million]

With the review and lifting of the evacuation order in areas designated as evacuation zones after the Great East Japan Earthquake, enterprises that were affected by the disaster are hereafter expected to recommence business and locate their business in affected areas. In anticipation of this development, private sector organizations commissioned by the government will carry out radiation measurements of the industrial products of affected enterprises, measure and inspect the types and amounts of radioactive substances, and provide guidance and advice, as countermeasures against harmful rumors. (Ongoing)

18. Industry-academia-government collaboration support project for Fukushima Prefecture, etc.

[Fiscal 2017 budget: ¥110 million]

Mainly in Fukushima Prefectures, where harmful rumors stemming from the Great East Japan Earthquake and nuclear disaster are still in effect, product development and market cultivation efforts will be promoted by providing opportunities for collaboration between disaster-affected enterprises and universities, public research institutions or major companies, and assisting in the development of trial products. (Ongoing)

19. Program for employment support in response to

the nuclear disaster

[Fiscal 2017 budget: ¥1.87 billion]

A program will be implemented to provide temporary places of employment to people in Fukushima Prefecture who have been affected by the nuclear disaster, to help them stabilize their living situation. (Ongoing)

20. Measures for securing human resources in disaster-affected regions

[Fiscal 2017 budget: ¥980 million]

A program will be implemented that aims to attract wide-ranging human resources, including young workers and specialists, to disaster-affected regions, and provide enterprises with the knowhow for acquiring, retaining and developing human resources so they may increase their capacity to gain personnel. Efforts will also be made to widely disseminate best practices in acquiring human resources. (New)

21. Program for promoting regional reconstruction and practical development under the Fukushima Innovation Coast Scheme

[Fiscal 2017 budget: ¥6.97 billion]

Support will be provided for the cost of practical development of robot technology and other innovative technologies in the priority areas(*) of the Fukushima Innovation Coast Scheme, which contribute to regional promotion through cooperation with local enterprises. (New)

*Priority areas include the decommissioning of reactors, robots, energy, environment and recycling, agriculture, forestry and fisheries, and medical equipment, among others.

22. Support program for business recovery, etc. by SMEs and micro-businesses

[Fiscal 2017 budget: ¥11.2 billion (fund)]

To provide concentrated support to SMEs in the 12 municipalities that were affected by the nuclear disaster in Fukushima prefecture and thereby create jobs in the region and promote the early recovery of city functions such as by restoring places for shopping, a subsidy will be provided to cover part of the capital investment needed to resume business. From fiscal 2017, the scope of the support will be expanded to enterprises in “difficult-to-return zones” that cannot resume business in the original community. (Ongoing)

23. Support program for new businesses in regions affected by the nuclear disaster

[Fiscal 2017 budget: ¥210 million]

A subsidy will be provided for capital investment needed to start a new business in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture or transfer a business from outside the 12 municipalities, and initiatives will be taken to develop

an environment conducive to revitalizing investment, to help the 12 municipalities recover their city functions so that affected enterprises can get back on their feet. (Ongoing)

24. Support for securing travel and transportation means needed to receive lifestyle-related services
[Fiscal 2017 budget: ¥230 million]

In the 12 municipalities affected by the nuclear disaster in Fukushima prefecture, support will be provided in the form of travel and transportation means so that local stores could make joint deliveries, local residents can receive medical services, etc. (Ongoing)

25. Support for securing personnel through a personnel match-up program
[Fiscal 2017 budget: ¥500 million]

Human resources coordinators will make a detailed assessment of the personnel needs of businesses in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture, and widely share these needs with job seekers so that personnel could be acquired from both inside and outside the 12 municipalities through a match-up program. (Ongoing)

26. B2B match-up program for sixth sector industrialization
[Fiscal 2017 budget: ¥380 million]

A B2B match-up service will be provided, to help businesses cultivate new markets and promote the creation of new businesses. In addition to matching businesses with other businesses, an expert will also provide guidance regarding the smooth implementation of business after the match-up. (Ongoing)

27. Support through individual visits by public-private partnership teams
[Fiscal 2017 budget: ¥8.2 billion (fund)]

The framework for providing support through individual visits and consultations via a public-private partnership team will be strengthened. A team composed of counselors, consultants, SME management consultants, and other such experts will provide fine-tuned consultation support on issues related to business commencement, business succession, job change, lifestyle reconstruction, etc. From fiscal 2017, the scope of the support will be expanded to include municipalities. (Ongoing)

28. Support program for introducing regional traditions, attractions, etc.

To introduce the local attractions, traditional crafts, specialty products (local agricultural, commercial and industrial products), etc. of the 12 municipalities affected by the nuclear disaster in Fukushima prefecture throughout Japan and overseas, support will be provided to businesses that plan to participate

in a trade fair. (Ongoing)

Section 2 Enhancing financial capacity

1. Lowering of reduced tax rates

[Taxation scheme]

A measure will be taken to lower the rate of corporate tax (19%) incurred on annual income amounts up to ¥8 million to 15%. Under the fiscal 2017 tax reform, the applicable period of this scheme will be extended by two years. (Ongoing)

2. SME investment promotion tax system

[Taxation scheme]

Under this system, a 30% special depreciation or a 7% tax credit (the tax credit is not offered to corporate entities with a capital of more than ¥30 million) is offered for the cost of acquiring machinery or equipment. Under the fiscal 2017 tax reform, the applicable period of this scheme will be extended by two years, upon conducting a review of relevant facilities. (Ongoing)

3. Special scheme for inclusion of petty sum depreciable assets in expenses

The special provision will allow enterprises that acquire petty sum depreciable assets (worth less than ¥300,000 in acquisition cost) to include the assets in expenses (limited to a total of ¥3 million a year) (with the exception of enterprises with more than 1,000 employees). (Ongoing)

4. Carryover and refund carryback of loss

The carryover of loss is a scheme that allows loss arising in the current business year to be deducted as a loss carried over from the amount of income in the following and subsequent business years (carryover period: 9 years). The one-year carryback refund allows losses arising in the current business year to be carried back a year, and a return on corporate tax to be filed. (Ongoing)

5. Taxation system for the revitalization of the commercial, service and agriculture/forestry/fishery industries

[Taxation scheme]

This tax measure allows SMEs in the commercial and service industries that acquire facilities based on advice on business improvement from a chamber of commerce and industry or other such institution to receive a 30% special depreciation deduction from the cost of acquisition or a 7% tax credit (the tax credit is offered only to corporate entities with a capital of no more than ¥30 million). Under the fiscal 2017 tax reform, the applicable period of this scheme will be extended by two years. (Ongoing)

6. Special exemption from inclusion in charges against revenue of entertainment and social expenses, etc.

This measure allows the selective application of (1) the measure that permits entertainment and social expenses to be included in charges against revenue up to the fixed deduction amount (¥8 million) or (2) the measure that allows 50% of food and drink expenses to be included in charges against revenue was offered. (Ongoing)

7. Investment by Small and Medium Business Investment and Consultation Co., Ltd.

In order to help enhance SMEs' capital adequacy and contribute to their sound growth and development, the Small and Medium Business Investment and Consultation Co., Ltd. will operate a number of programs to assist in SME development. These include business consultations, assistance with business successions and investment programs involving the underwriting of shares, share warrants and corporate bonds with subscription warrants. (Ongoing)

Section 3 Measures for proper transaction prices and pass-throughs of consumption tax

1. Improvement of the transaction conditions of SME subcontractors

The dissemination status of initiatives based on the standards and notification revised in December 2016 and voluntary action plans will be examined. More specifically, transaction investigators will be newly installed to further strengthen the interview survey framework, and more than 2,000 subcontractors will be interviewed over the year. A detailed written questionnaire survey will also be conducted on several tens of thousands of enterprises, including contractors. Any issues that surface as a result of the interviews will be fed back to the relevant company or industrial organization as necessary, and a request will be made for the enforcement and modification of voluntary plans. (Ongoing)

2. Stricter enforcement of the Subcontractor Payment Act

[Fiscal 2017 budget: Included in ¥1.39 billion]

Various opportunities will be taken to verify the dissemination status of the notification regarding the payment means of subcontract fees that was revised in December 2016 and the operating standards of the Subcontractor Payment Act that was revised on the same day.

To ensure fair treatment of subcontractors and protect their incomes, the Fair Trade Commission (FTC) and SME Agency will collaborate closely in enforcing the Subcontractor Payment Act. In fiscal 2017, the

FTC and SME Agency will continue to encourage rigorous compliance with the Act, by carrying out a written survey of principal contractors, and by collecting information on violations of the Act through an office set up specifically to receive such information and reports. Additionally, during the "Subcontractor Fair Treatment Promotion Month" held in November, rigorous compliance with the Act will again be encouraged by conducting special questioning. With the aim of securing the cash-flows of subcontractors as they move into the financially busy period at the end of the year, active measures will be taken to raise awareness of the Act by having the Minister of Economy, Trade and Industry and the FTC Commissioner jointly issue a statement calling for the fair treatment of subcontractors, with the statement being sent to the CEOs of principal contractors and the representatives of relevant business organizations. (Ongoing)

3. Strengthening consultation systems and fair subcontracting transactions

[Fiscal 2017 budget: Included in ¥1.39 billion]

Consultation services concerning SME transactions will be provided by Subcontracting Help Centers that are to be set up in 48 locations throughout Japan. Additionally, price negotiating knowhow that managers and sales representatives of subcontracting SMEs need to negotiate prices with the procurement department of principal contractors will be disseminated via a collection of best practices and a handbook, as well as through individual guidance and seminars.

To prevent the occurrence of violations of the Subcontractor Payment Act, seminars will be held targeting the procurement managers at principal contractors to further raise awareness of the Subcontractor Payment Act etc., while examples of initiatives by principal contractors will be presented around the country and symposiums and other events held to promote broader adherence to the Subcontractor Payment Act. Information sessions will also be held nationwide to disseminate guidelines for promoting fair subcontracting transactions. (Ongoing)

4. Self-reliance support for SME and micro subcontractors

[Fiscal 2017 budget: Included in ¥1.39 billion]

Under the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises, business plans designed to solve issues in collaboration between subcontracting SMEs and micro-businesses that are highly transaction-dependent on principal contractors will be certified and supported in the form of subsidies, loans and special exemptions for guarantees. In regions where production centers of principal contractors have closed or downsized (or

are slated to close), support in the form of subsidies will be provided to subcontracting SMEs seeking to advance into new fields. (Ongoing)

5. Support for market expansion through subcontracting business mediation and business fairs

[Fiscal 2017 budget: Included in ¥1.39 billion]

Using Business Matching Stations (BMS), SMEs looking to solicit new clients will be provided with information on orders for contract manufacturing issued and received between enterprises for business such as outsourced manufacturing in the SME's preferred industry and where the SME can provide the required equipment or technology. Broad-area information sessions will also be held to support new market development. (Ongoing)

6. Request for consideration toward small and medium subcontractors

[Fiscal 2017 budget: Included in ¥1.39 billion]

Various opportunities will be taken to verify the dissemination status of promotional standards based on the Subcontracting Promotion Act that were revised in December 2016. Additionally, a written request will be issued to the representatives of relevant business organizations, requesting their consideration to subcontractors. (Ongoing)

7. Programs to enhance monitoring and inspection regimes for consumption tax imputation

[Fiscal 2017 budget: ¥2.85 billion]

To ensure that consumption tax is passed through appropriately, "cost pass-through inspectors" will be assigned throughout Japan. At the same time, to collect information such as on refusals to pass through the consumption tax, a large-scale written survey will be carried out in conjunction with the Fair Trade Commission (FTC) in an effort to monitor and regulate acts of refusal to pass through the consumption tax. (Ongoing)

Section 4 Measures for reduced consumption tax rate system

1. Support for the introduction of cash registers and system renovations among SMEs in the retail trade industry

Support will be provided to help businesses prepare for the introduction and operation of the reduced consumption tax rate system and prevent confusion. More specifically, (1) support for introducing cash registers that are compatible with multiple tax rates will be provided to SMEs in the retail trade industry, and (2) support for system renovations will be provided to SMEs in the retail trade and wholesale trade industries that use electronic ordering systems

that are not compatible with multiple tax rates. (Ongoing)

2. Consultation desks for inquiries regarding the reduced consumption tax rate system

[Fiscal 2017 budget: ¥1.94 billion]

Toward the smooth implementation of the reduced consumption tax rate system, detailed support will be provided in cooperation with SME organizations, etc. Seminars and forums will be held, consultation desks will be established, specialists will be dispatched to provide itinerary guidance, and such support measures will be disseminated via pamphlets and other such media. Support will also be provided through the operation of cost pass-through consultation desks. (Ongoing)

Section 5 Measures for business stabilization

1. Mutual Relief System for the Prevention of Bankruptcies of SMEs (Mutual Safety-net Relief System)

The Mutual Relief System for the Prevention of Bankruptcies, which provides loans to prevent a chain reaction of bankruptcies accompanying the bankruptcy of a supplier or customer, will continue to be promoted among SMEs and will continue to provide steady loans. (Ongoing)

2. Special Business Stability Consultation Centers

To facilitate management consultations at special business stability advice centers that have been established in key chambers of commerce and industry and prefectural federations of societies of commerce and industry across the country, support will continue to be provided to initiatives such as guidance programs run by the Japan Chamber of Commerce and Industry and the Central Federation of Societies of Commerce and Industry. (Ongoing)

3. Promotion of wider adoption of BCPs by SMEs

To strengthen the capacities of SMEs and micro-businesses to continue business in the event of an emergency and increase their corporate value, initiatives related to promoting the dissemination and propagation of BCPs will continue to be implemented. Additionally, low-interest loans will be provided by the JFC for the establishment of disaster prevention facilities in accordance with BCPs formulated by SMEs and micro-businesses themselves. (Ongoing)

4. Relief for damage caused by dumped imports

[Fiscal 2017 budget: ¥65 million]

Trade remedy measures include anti-dumping (AD) programs to provide relief to domestic industries impacted by dumped imports to Japan from foreign

enterprises, including measures to ensure equitable market competition such as by imposing extra customs duties following a petition by the affected Japanese industry and an investigation by the government. The AD investigation into polyethylene terephthalate with a high degree of polymerization originating in China that was begun in September 2016 will be pursued fairly and appropriately based on international rules and Japanese laws and regulations. Furthermore, information sessions will be held for enterprises, and studies will be conducted to ensure that investigations are consistent with WTO conventions. (Ongoing)

Section 6 Measures concerning public demand

1. Formulation and dissemination of the “FY2016 Policy on State Contracts with Small and Medium Enterprises”

Cabinet approval will be given on measures that are contained in the Basic Policy on State Contracts with Small and Medium Enterprises that is formulated every year with the aim of achieving the target number of state contracts with new and existing SMEs and increase opportunities for SMEs to receive orders. Additionally, the following initiatives will be implemented to fully disseminate the Basic Policy.

- (1) The Minister for Economy, Trade and Industry will explain the purport of the Basic Policy in writing to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards, and also request that they make efforts to increase opportunities for SMEs and micro-businesses to receive orders.
- (2) Information sessions (Councils to Promote Local Access to Public Sector Demand) will be held throughout Japan to actively disseminate the Basic Policy in regional areas.
- (3) Conferences (Councils to Promote Procurement from New SMEs) will be organized to discuss policies for information sharing and cooperation regarding initiatives for promoting procurement from new SMEs in regional areas.
- (4) A “Guide to Contracts in the Public Sector” will be produced and distributed to central and local government agencies and other commerce and industry-related organizations. (Ongoing)

2. Operation of the “Public Demand Information Portal Site” to expand opportunities for SMEs and micro-businesses to receive orders from the public sector

[Fiscal 2017 budget: Included in ¥1.39 billion]

A Public Demand Information Portal Site will be operated that provides SMEs and micro-businesses with one-stop access to order information posted on national government and other local public websites

in order to improve access by SMEs and micro-businesses to information on public sector orders. (Ongoing)

Section 7 Promotion of human rights awareness

1. Human rights awareness

[Fiscal 2017 budget: ¥190 million]

For promotion of sound economic activities, seminars and other awareness-raising activities will be implemented, intended for corporate entities. Traveling consultation services and training programs will also be offered to revitalize micro businesses in regions or industries where there are particularly large numbers of micro businesses that require concentrated support. (Ongoing)

Section 8 Promotion of surveys and public information activities

1. Publicizing of policy

To publicize SME policy, guidebooks and leaflets summarizing the main points will be produced and distributed to local governments, SME support agencies and financial institutions, etc., and further publicity will be generated by issuing information via portal site for SME support (Mirasapo) and organizing “One-day SME Agency” events.

(1) Publication of booklets

Guidebooks and leaflets for utilizing SME policies have been produced, including the “Guide to the Use of SME Policy,” which contains an introduction of more than 200 policies. These will be distributed to a wide range of interested parties, including SMEs, local government bodies, SME support agencies (commerce and industry associations, chambers of commerce and industry, etc.), financial institutions, and certified public tax accountants, lawyers, certified public accountants, and SME management consultants who provide support to SMEs. (Ongoing)

(2) Organization of “One-day SME Agency” events

Co-hosted by the SME Agency and host prefectures, these events will be held both to explain the latest measures to local SMEs and deepen their understanding of the measures. The events will also provide a forum for exchanges of ideas and interaction, toward contributing to future revisions and improvements in SME policy.

These events have been held every year since 1964. (Ongoing)

(3) Publicity using the Internet

1) Website based publicity

Up-to-date information on SME measures, information on public offerings, and publicity materials such as flyers and booklets will be posted on the SME Agency website. (Ongoing)

2) E-mail newsletters

In association with SME support agencies, an e-mail newsletter will be issued to subscribers every Wednesday, containing introductions of vibrant SMEs, policy information, local updates, surveys and research reports, and information concerning events. (Ongoing)

(4) “Mirasapo” (portal website for supporting the future of SMEs and micro-businesses)

Through the Mirasapo site, the latest support information, information on how to apply for subsidies, case examples of the utilization of support schemes, etc. will be delivered to nationwide SMEs in a timely and easy-to-understand manner. (Ongoing)

2. Production of the White Paper on Small and Medium Enterprises in Japan and the White Paper on Small Enterprises

In order to ascertain the current situation of SMEs and the challenges that they face, an annual report (2017 White Paper on Small and Medium Enterprises in Japan) will be produced in accordance with the provisions of Article 11 of the Small and Medium-sized Enterprise Basic Act. Also to ascertain the current situation of small enterprises and the challenges they face, an annual report (2017 White Paper on Small Enterprises) will be produced in accordance with the provisions of Article 12 of the Small Enterprises Promotion Act. (Ongoing)

3. Basic Survey of Small and Medium Enterprises

The Basic Survey of Small and Medium Enterprises will be conducted in accordance with the provisions of Article 10 of the Small and Medium-sized Enterprise Basic Act, to acquire statistics concerning management and financial information such as SME sales figures and numbers of workers employed by SMEs. (Ongoing)

4. Publication of the Survey on SME Business Conditions

The Survey on SME Business Conditions will be published quarterly by the SMRJ to ascertain business trends among SMEs. (Ongoing)

Chapter 6 Initiatives by industries and area

Section 1 Measures for SMEs in agriculture, forestry and fisheries

1. Promotion of diversification of primary producers into processing and distribution (sixth sector industrialization)

- (1) Subsidy for sixth sector industrialization network activities

[Fiscal 2017 budget: ¥1.91 billion]

Support will be provided for initiatives in which agriculture, forestry and fishery businesses create a network to develop new products, cultivate markets and operate facilities for processing and marketing agriculture, forestry and fishery products. Support will also be provided for sixth sector industrialization initiatives that are implemented by the entire region in line with municipal strategies related to sixth sector industrialization. (Ongoing)

- (2) Active utilization of the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan

Support will be provided through measures such as investment for business activities aimed at sixth sector industrialization by agriculture, forestry and fishery businesses in cooperation with distribution and processing businesses through the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan (A-FIVE). (Ongoing)

- (3) Comprehensive program for the utilization of the geographical indication protection system

[Fiscal 2017 budget: ¥170 million]

Initiatives will be implemented to establish support centers for registration and application of geographical indications (GI), provide a subsidy for carrying out examinations required for application, raise awareness of the GI protection system by holding symposiums and trade fairs on GI, disseminate information on GI products in Japan and abroad, and strengthen measures against infringements of Japan's intellectual properties overseas. (Ongoing)

- (4) Comprehensive program to promote renewable energy to revitalize rural areas

[Fiscal 2017 budget: ¥170 million]

Growth in regional agricultural, forestry and fishery businesses will be promoted by pursuing community-based initiatives to supply renewable energy and to feed the benefits of such initiatives back into local communities. In fiscal 2017, the program will support only ongoing initiatives that have been implemented by fiscal 2016. (Ongoing)

2. Support for small and medium agricultural, forestry, and fishery businesses

- (1) Wood Industry Upgrading Promotion Fund and Forestry and Wood Industry Improvement Fund
[Fiscal 2017 budget: ¥63.9 billion]

In order to streamline lumber production and distribution, loans will be provided through the Wood Industry Upgrading Promotion Fund, and loans through the Wood Industry Improvement Fund will be provided to implement measures such as management reforms in the forestry and lumber industries. (Ongoing)

- (2) Interest subsidy for the installation of lumber processing facilities

[Fiscal 2017 budget: ¥5 million]

To supply high-quality, high-performance wood products stably at low cost, an interest subsidy will be provided for borrowings required for the introduction of facilities by enterprises engaging in lumbering, and for the establishment of a stable supply framework by midstream businesses. (Ongoing)

- (3) Subsidy for Establishment of a Next-generation Forestry Foundation (for the development of lumber processing and distribution facilities)

[Fiscal 2017 budget: ¥7.01 billion]

To create a supply chain for stable and efficient supply in terms of cost, volume and quality, support will be provided for the development of lumber processing and distribution facilities needed for the creation of a supply chain.

- (4) Support for reorganization and development of the dairy industry by means of subsidies for building a strong agricultural industry and comprehensive measures for the revitalization of production areas

[Fiscal 2017 budget: Included in the ¥23.0 billion Subsidy for Creating Strong Agriculture and ¥2.57 billion comprehensive measures for revitalization of production regions]

(Objectives of the measure)

- To promote a stronger management culture in the SME dairy industry, such as by restructuring and rationalizing dairy plants and enhancing sanitary control, toward contributing to business stabilization among dairy farmers, amid a stagnation in the consumption of milk.

(Overview of the measure)

- To reduce the production and selling costs of SMEs in the dairy industry and promote the advancement of sanitary standards, support will be provided for the additional construction and closing down of dairy plant facilities and for the closing down of dairy plants in cases where it is not accompanied by the construction of new plants.

- To promote steady initiatives toward increasing the efficiency of collecting and transporting milk and restructuring the dairy industry, support will also be provided for initiatives for assessing and examining regional issues, formulating specific plans, and rationalizing employees. (Ongoing)
- (5) Support for strengthening the food quality management framework (measures for SMEs in agriculture, forestry and fisheries)
To improve the safety of food products and gain the confidence of consumers, financial support will be provided for the following initiatives under the Act on Temporary Measures concerning Sophistication of Management of Food Manufacturing Process: (1) Provision of infrastructure and equipment for HACCP introduction; and (2) Provision of infrastructure and equipment for hygiene and product quality control as preliminary steps towards HACCP introduction (advanced platform provision). (Fund for promoting advanced quality control in the food industry) (Ongoing)
- (6) Comprehensive export support project
[Fiscal 2017 budget: ¥1.6 billion]
(Objectives of the measure)
 - To implement initiatives for the promotion of exports in line with the “Strategies for Strengthening the Export Competitiveness of the Agriculture, Forestry and Fishery Industries” (compiled in May 2016 by the Headquarters on Creation of Regional Vitality in Agriculture, Forestry, and Fisheries) through private-public cooperation toward achieving the target of ¥1 trillion in exports by 2019.
 (Overview of the measure)
 - Through subsidies to JETRO, comprehensive business support will be provided for upstream to downstream operations of export businesses.
 - Opportunities for direct negotiations between Japanese businesses and overseas buyers will be provided by establishing a Japan Pavilion in overseas trade fairs that are held in countries and regions where export is strongly expected to increase in the future.
 - Major buyers from overseas will be invited to business conventions in Japan to deepen their understanding of the characteristics of Japanese product categories and their safety through onsite inspections of wholesale markets and production regions, to promote effective business talks.
 - Marketing bases (in-store shops) for marketing and promoting Japanese products will be established in countries and regions where export from Japan is strongly expected to increase in the future, to sell products of Japanese businesses on a test basis and provide feedback of local responses. (Ongoing)
- (7) Measures for export businesses
(Objectives of the measure)
 - To implement initiatives for the promotion of exports

in line with the “Strategies for Strengthening the Export Competitiveness of the Agriculture, Forestry and Fishery Industries” (compiled in May 2016 by the Headquarters on Creation of Regional Vitality in Agriculture, Forestry, and Fisheries) through private-public cooperation toward achieving the target of ¥1 trillion in exports by 2019.

(Overview of the measure)

- Export organizations for each export category including marine products, rice and rice products, flowers, animal products, tea, forestry products (wood), fruits and processed foods (snack foods) will hold examination committees in Japan, conduct overseas market surveys, and implement initiatives for resolving issues regarding the export environment, with the objective of establishing the Japan brand.
 - Organizations that coordinate major export production regions and related business in Japan that handle processed foods (excluding snack foods), and organizations that coordinate multiple product categories in regional blocks will hold discussion meetings in Japan, conduct overseas market surveys and implement initiatives for cultivating markets overseas, with the objective of achieving stable supply throughout the year or on a long-term basis.
 - To respond to quarantine requirements that are sought by relevant countries and regions, promote the acquisition and renewal of international certifications, and realize transportation costs in accordance with the export conditions of each item, initiatives will be implemented for the development and demonstration of an optimal export model.
- (Changes from fiscal 2016)
- In response to the establishment of a new export organization for processed foods (snack foods), support will be provided to a total of 8 organizations for their initiatives to develop the Japan brand. (Ongoing)

3. Support for R&D and other cross-field activities

- (1) Promotion of studies of scientific technologies for the agriculture, forestry, fishery and food industries
[Fiscal 2017 budget: ¥3.07 billion]
To develop the agriculture, forestry, fishery and food industries into growth industries, R&D in those sectors, from the basic to applied stages, will be seamlessly promoted through industry-academia collaboration. (Ongoing)
- (2) Various forms of lending by JFC
Loans will be provided for (1) the improvement of the management of designated agricultural processing businesses, (2) the promotion of new applications of designated agricultural, forestry and livestock products or the adoption of new raw material species for processing, (3) the establishment of stable transaction relationships between food manufacturers

and agriculture, forestry and fishery businesses and the development of agricultural, forestry and fishery facilities, (4) the improvement of dairy facilities, and (5) the strengthening of the corporate structure of seafood manufacturers.

Section 2 Measures for SMEs in the transport industry

1. Support for the warehousing industry

To save labor and increase efficiency of physical distribution services pursuant to the Law for Integration and Improvement of Physical Distribution, the development of warehouses that serve both transport and storage functions will continue to be promoted. Additionally, to promote low-carbon warehouses, ongoing support will be provided for the introduction of energy-saving facilities. (Ongoing)

2. Interim measures for coastal shipping

In order to ensure the smooth and steady implementation of interim measures for coastal shipping, support will be provided by establishing a separate system of government guarantees for the loans required to fund these measures. (Ongoing)

3. Measures for small and medium shipbuilders and related manufacturers

[Fiscal 2017 budget: (1) Included in ¥40 million; (2) ¥16 billion (fiscal 2013 budget); (3) ¥680 million; (4) ¥90 million]

- (1) In addition to taking steps to develop a safety net for business stabilization, (1) courses aimed at modernizing management techniques were held, and a health and safety manager training course will also be held to help prevent industrial accidents. (Ongoing)
- (2) Most of the shipyards and shipbuilders on the Pacific coast of Tohoku suffered devastating damage in the Great East Japan Earthquake. The Ministry of Land, Infrastructure and Transport, in cooperation with the SME Agency and other relevant ministries and agencies, have supported the utilization of various support programs to promote the prompt recovery and reconstruction of local shipbuilding industries that support the fishery industry that is a core industry in the region. For shipbuilding businesses that face difficulties in resuming operations at the same level as before the earthquake due to ground subsidence, the Subsidy for Projects that Support the Reconstruction of Shipbuilding Businesses, etc. was established in fiscal 2013 to support the development of shipbuilding facilities toward the full-scale reconstruction of the shipbuilding industry through business cooperation and integration. A total of 19 businesses in 8 projects were selected to receive a subsidy (¥11.42 billion in total), as of the end of fiscal 2014. As three of those subsidized businesses have been completed by the end

of fiscal 2016, support will be provided for the proper implementation of the remaining 5 businesses, toward the prompt reconstruction of the shipbuilding industry in Tohoku. (2) Subsidy for reconstruction assistance projects in the shipbuilding industry (Ongoing)

- (3) Subsidies will be provided for research and development projects for marine resource development technologies that contribute to the strategic growth of Japan's marine industries, and technologies for productivity improvement in the construction and operation of ships in Japan's maritime industry. (3) Subsidy for R&D for technologies related to the maritime industry (Ongoing)
- (4) To allow SMEs and micro-businesses to receive tax benefits and other support measures based on the Act on Strengthening the Management of SMEs, etc., the approval of management improvement plans formulated by SMEs and micro-businesses in line with sector-specific guidelines will be pushed forward, and capital investment for productivity improvement will be promoted. [Taxation] (Ongoing)
- (5) To secure human resources in the shipbuilding sector, the network between local shipbuilding enterprises and educational institutions will be strengthened by promoting shipyard internships and educational shipbuilding workshops for high school teachers, in line with the guidance that was created in fiscal 2016. A training program for shipbuilding instructors will also be created to strengthen shipbuilding education in high schools and establish a sustainable training framework for shipbuilding instructors. Furthermore, the employment of foreign workers will be promoted, for proper operation of the program for accepting foreign shipbuilding workers. (4) Acquisition and development of human resources in the shipbuilding industry (Ongoing)

Section 3 Measures for small and medium building contractors and realtors

1. Support for productivity improvement in the construction industry

[Fiscal 2017 budget: ¥60 million]

This program aims to address the various issues in the construction industry, such as responses to the growing pace of technical innovations, faced by regional SME and second-tier construction companies, which play an extremely important role in protecting the lives and properties of the people as regional guardians. Experts in the construction industry, including human resource development specialists, SME consultants, engineers, and occupational safety consultants, will support SME and second-tier construction enterprises that are strongly aware of the need to address the various issues in the construction industry by providing advice and other consultation support. Among the initiatives

for addressing these issues, “priority support (step-up support)” will be provided to those that would serve as model examples.

The main purpose of the program is to realize sustainable growth of SME and second-tier construction companies by effectively sharing best practices in “priority support (step-up support)” throughout the industry. (New)

2. Financial support in the construction industry

(1) Implementation of the Local Construction Management Enhancement Loan Program

To further facilitate funds procurement by construction companies acting as the main contractor, the Local Construction Management Enhancement Loan Program will continue to be implemented, to allow small and medium-sized construction enterprises and second-tier construction companies to receive a loan from loan businesses in proportion to the construction work using the contract value credit from public works as collateral. The program aims to secure loan funds and reduce procurement interest rates by attaching a loan guarantee to sublease funds that loan businesses borrow from financial institutions when providing a loan.

(2) Implementation of the Subcontracting Receivables Protection Support Program

To further promote the protection of receivables and facilitate funds procurement by building subcontractors, compensation for losses will be provided in cases where a contract price receivable by an SME or second-tier subcontractor from the main building contractor is guaranteed by a factoring company, and a subsidy will continue to be provided to cover the guarantee fee borne by the subcontractor under the Subcontracting Receivables Protection Support Program. (Ongoing)

3. Support for overseas business expansion in the construction industry

[Fiscal 2017 budget: ¥70 million]

To support overseas expansions by second-tier and SME construction companies, support will be provided as appropriate to the overseas expansion stage of each enterprise. For example, market surveys will be conducted in the relevant country, and the possibilities of Japanese construction enterprises to expand into overseas construction markets will be analyzed. Based on the results of these activities, nationwide seminars on formulating overseas expansion strategies will be held for business managers of second-tier and SME construction companies considering an expansion into a foreign country, and missions will be dispatched to relevant countries. In addition to the above, support will be provided for their participation in overseas trade fairs, and initiatives for disseminating and introducing the latest information will be implemented

via practical seminars on overseas construction industries, and a database of overseas construction and real estate markets. (Ongoing)

4. Financial measures for small and medium realtors

Loan guarantee programs designed to provide guarantees for business loans for regional revitalization and for loans to fund joint initiatives by small and medium realtors will be continued so as to supplement credit and facilitate financing of small and medium realtors. (Ongoing)

5. Regional housing greenification program

[Fiscal 2017 budget: ¥11.4 billion]

To strengthen the regional production framework for wooden housing and reduce environmental burden, support will be provided for the development of energy efficient and durable wooden housing and buildings through groups comprising businesses in related fields involved at all stages from provision of materials through to design and implementation. (Ongoing)

6. Community-based program for developing a framework for wooden housing construction techniques

[Fiscal 2017 budget: ¥470 million]

To maintain and develop a framework for wooden housing construction techniques in the regions and create a stock of excellent housing, support will be provided for training activities implemented by groups of private businesses to develop skilled carpenters. (New)

Section 4 Measures for the environmental sanitation business

1. Measures for the environmental sanitation business

[Fiscal 2017 budget: ¥1.04 billion]

Subsidies will be provided to environmental sanitation associations, the national environmental sanitation guidance center, and prefectural environmental sanitation guidance centers, to promote the creation of safe and comfortable lifestyle environments from the perspective of sanitation. Support will be provided specifically for rehabilitating the management of environmental sanitation businesses such as the hairdressing, dry cleaning and restaurant businesses, maintaining and improving sanitation standards, and protecting user and consumer interests. In fiscal 2017, priority will be placed on projects for multilingualizing the website of environmental sanitation associations and strengthening the framework for receiving foreign visitors to Japan (projects for strengthening inbound

measures by environmental sanitation businesses), in response to the rapid increase in foreign visitors to Japan, which has also become a pressing issue to environmental sanitation businesses. (Ongoing)

2. Loans for ES businesses

[Fiscal 2017 budget: ¥3.06 billion]

The JFC will provide low-interest loans (environmental sanitation loans) with the aim of improving and otherwise promoting public health, by providing financial assistance to environmental sanitation businesses. In fiscal 2017, loan conditions related to loans for business founders will be expanded, and proper support will continue to be provided in response to demand for funds from environmental sanitation businesses. (Ongoing)

Section 5 Environmental and energy measures

1. Administrative support for the system for certifying greenhouse gas reductions by SMEs (J-Credit Scheme)

[Fiscal 2017 budget: ¥380 million]

- The J-Credit Scheme is a system for certifying the amounts of greenhouse gas emission reductions achieved through capital investment by SMEs as “credits.” Support will be provided for administration of the scheme and the formulation of business plans. (Ongoing)
- This program also develops the foundation for the carbon offset mechanism whereby CO2 emissions from products and services are offset with carbon credits, by taking advantage of the “visualization” of carbon emissions from products by the Carbon Foot Print (CFP) system, and promotes the cultivation of demand for credits created under the J-Credit Scheme. (Ongoing)
- By boosting low-energy investments by SMEs and promoting the circulation of funds in Japan through the use of these credits, the program will aim to achieve a good balance between the environment and economy. (Ongoing)

2. Environment and Energy Measure Fund (for anti-pollution measures)

[Fiscal investment and loan program]

To promote anti-pollution measures by SMEs, the JFC will continue to provide special interest rate loans upon conducting a review of relevant facilities and interest rates. (Ongoing)

3. Anti-pollution tax system [Taxation scheme]

This anti-pollution tax system will continue to be implemented, to support the pollution prevention initiatives of SMEs and micro-businesses. (Ongoing)

4. Subsidy for supporting the promotion of energy conservation investments (Energy Use Rationalization Business Support Subsidy)

[Fiscal 2017 budget: Included in ¥67.26 billion]

To promote energy conservation investments and improve energy consumption efficiency in plants and offices, support will be provided for the replacement of existing facilities with energy-efficient facilities. In fiscal 2017, support will also be provided for initiatives that contribute to improving energy consumption rate and for the renewal of individual energy-efficient facilities, and particular focus will be placed on supporting initiatives for reducing energy use by groups of multiple businesses.

5. Interest subsidy for investment in energy-saving facilities [Fiscal 2017 budget: ¥1.85 billion]

An interest subsidy on loans will be provided to businesses that receive financing from private financial institutions to improve energy consumption efficiency by introducing energy-saving facilities to a new office or installing/adding energy-saving facilities to an existing office, to reduce the cost of funds procurement.

6. Subsidy for SME energy conservation diagnosis programs [Fiscal 2017 budget: ¥1 billion]

A diagnosis program will be implemented to diagnose the energy and power saving potential of SMEs, and case examples and energy-saving technologies obtained from the program will be disseminated via various media. Additionally, regional consultation platforms will be established to provide detailed consultation on energy conservation and thereby promote energy-saving initiatives.

7. Taxation scheme to promote environment-related investment

[Taxation scheme]

The taxation scheme that provides individuals and corporate entities that file a blue tax return a 30% special depreciation or a 7% tax credit (SMEs only) during the first year for the cost of acquiring facilities that contribute to promoting energy conservation and recycling, will continue to be implemented. (Ongoing)

8. Program to create a fund to promote regional low-carbon investment

[Fiscal 2017 budget: ¥4.8 billion]

In order to call in private funding to low-carbon projects such as renewable energy projects that are likely to be profitable but lack sufficient private funding due to risks stemming from long lead times or long investment recovery periods, funding will be provided from the low-carbon investment promotion fund. (Ongoing)

9. Eco-Lease promotion program**[Fiscal 2017 budget: ¥1.9 billion]**

The widespread adoption of low-carbon devices will be supported by subsidizing part of the total lease payment and promoting the utilization of a no-deposit “lease” scheme among SMEs that have difficulty coping with the very high initial investment costs (deposits) of installing low-carbon devices. (Ongoing)

10. Eco-Action 21

Eco-Action 21 Guidelines 2017 will be released, to raise awareness of Eco-Action 21 as an effective environmental management system for second-tier businesses and SMEs and contribute to enhancing corporate value, and symposiums will be held in several locations throughout Japan to promote recognition of Eco-Action 21. Additionally, the support program for introduction of an environmental management system dedicated to CO2 reduction will continue to be implemented, to promote greater awareness and approaches to Eco-Action 21 and other environmental management systems, and encourage large enterprises to introduce environmental management to their value chain. (Ongoing)

Section 6 Measures on intellectual property**1. Surveys of technical trends of patent application****[Fiscal 2017 budget: Included in ¥850 million]**

Market trends and patent application trends will be surveyed by selecting themes related to technical fields that have the potential to create and capture markets, and technical fields that Japan should promote as part of its science and technology policies. The results of the surveys will be made publicly available via such sources as the Japan Patent Office’s website, so they may be utilized for the formulation of R&D strategies and IP strategies in Japan’s industrial world. (Ongoing)

2. Subsidy for international patent applications**[Fiscal 2017 budget: ¥630 million]**

In order to encourage SMEs to file strategic applications for international patents, subsidies will be provided to partially defray the costs (such as application fees to overseas patent offices, expenditure on hiring Japanese agents and local agents overseas, and translation costs) incurred by SMEs aspiring to expand their business overseas. In addition to prefectural SME support centers, support will also be provided by JETRO as a nationwide regional implementation body. In fiscal 2017, the initiative will be expanded to an even larger number of prefectural SME support centers. (Ongoing)

3. Promotion of the wider use of IP systems**[Fiscal 2017 budget: ¥60 million]**

Information sessions will be held for individuals, tailored according to their different levels of knowledge and expertise on the intellectual property system. These include sessions outlining the IP system and explaining basic knowledge for beginners, along with sector-specific sessions with more specialized content for people with some experience, looking at topics such as the examination criteria for patents, designs, and trademarks, the application of the trial system and procedures for international applications. In fiscal 2017, information sessions for beginners will be held in 47 prefectures, and information sessions for working-level personnel will be held in major cities throughout Japan. (Ongoing)

4. Program supporting measures by SMEs to counter overseas infringement**[Fiscal 2017 budget: ¥100 million]**

To promote the timely and appropriate exercise of industrial property rights overseas by SMEs, the costs required for the investigation of imitation products through to procedures for issuing warning statements and government seizure against the manufacturer of imitation products will be subsidized through JETRO. Subsidies will also be provided for the cost of consulting with a lawyer or other authority and the cost of a lawsuit in cases where an SME is sued by a local enterprise overseas for an infringement of intellectual property rights, and for costs required for the invalidation or rescission of an usurped trademark. (Ongoing)

5. Patent strategy portal site**[Fiscal 2017 budget: Included in ¥10 million]**

The patent strategy portal site on the Patent Office’s website will provide online access to “data for self-analysis”, which includes individual data on the number of patent applications, the number of examination requests, and the patent allowance rate over the preceding 10 years, for applicants who apply for a password. (Ongoing)

6. Reductions in patent fees for SMEs

SMEs actively pursuing R&D will continue to be subsidized through the reduction by half of examination request fees and patent charges (for 10 years from the first year).

Small and medium venture enterprises and micro businesses will also receive support through two measures. One measure will reduce examination request fees, patent charges (for 10 years from the first year), and administrative charges for overseas patents (administrative charges for investigations, forwarding and preliminary examinations) by one third, and the other measure will subsidize amounts equivalent to

two-thirds of the amount paid in international patent administration fees and handling fees. (Ongoing)

7. Accelerated examination and accelerated appeal examination system

In cases where a patent applicant or appellant is an SME or micro business, this system will allow examinations and appeal examinations to be fast tracked by filing an “explanation of situation for accelerated examination” or “explanation of situation for accelerated appeal examination.” Designs and trademarks may also be subject to accelerated examination and accelerated appeal examination as long as they satisfy the requirements. (Ongoing)

8. Provision of a one-stop IP service for SMEs (General IP Help Desks)

[Fiscal 2017 budget: Included in INPIT subsidy]

“General IP Help Desks” have been established in each prefecture, staffed by support staff, in order to provide a one-stop service for on-the-spot resolution of IP concerns and problems encountered by SMEs in the course of business administration. The use of IP by SMEs will be further promoted such as by using IP experts to work with SMEs to jointly resolve highly specialist issues, collaborating with SME support agencies and similar organizations, and searching for SMEs that are not yet capable of utilizing IP effectively. In fiscal 2017, the support framework will be strengthened such as by strengthening cooperation with regional support organizations, to promote the effectiveness of the service to regional SMEs based on the Action Plan for Revitalization of Intellectual Properties in the Regions (Sept. 26, 2016), which was formulated by the Patent Office upon discussions by the Subcommittee on Intellectual Property of the Industrial Structure Council. (Ongoing)

9. Development of a one-stop support framework for trade secrets (“Trade secret/IP strategy consultation center—Trade secret hot line—”)

[Fiscal 2017 budget: Included in INPIT subsidy]

The “Trade secret/IP strategy consultation center—Trade secret hot line—” that was newly established in the National Center for Industrial Property Information and Training (INPIT) on February 2, 2015 cooperates with the IP comprehensive support center in responding to consultations mainly from SMEs through IP experts. The consultations deal with specific IP strategies, such as the open/close strategy that involves the rights of patents and confidentiality of trade secrets, as well as methods of managing confidential trade secrets and leaks and outflows of trade secrets. The center will continue to offer these services in fiscal 2017. Particularly with respect to cases of leakage and outflows of trade secrets,

information security measures and cyberattacks, the center will work in close cooperation with the National Police Agency and Information Technology Promotion Agency, Japan (IPA), in accordance with the content of the consultation. In fiscal 2017, activities for dissemination and awareness-raising will be promoted via seminars on trade secrets and intellectual properties and e-learning contents. (Ongoing)

10. Emerging Country IP Information Databank

[Fiscal 2017 budget: Included in INPIT subsidy]

This is an informational website aimed at legal and IP managers in Japanese enterprises doing business in developing countries and similar regions. Its purpose is to provide a wide range of IP information for various developing countries, including information on application procedures, examination and litigation procedures, licensing procedures and statistical and institutional trends. (Ongoing)

11. Dispatch of Global IP Producers

[Fiscal 2017 budget: Included in INPIT subsidy]

The National Center for Industrial Property Information and Training (INPIT) will dispatch experts in IP management (“Global IP Producers”) to assist SMEs and other enterprises with promising technologies that are likely to drive overseas expansion. These Global IP Producers support overseas business expansion by SMEs through the use of intellectual property, by assisting in the formulation of IP strategies tailored to the nature of the overseas operations and factors such as the situations and systems in the target countries. (Ongoing)

12. On-site and TV interviews

To provide support regarding patents, designs and trademarks to small and medium venture enterprises throughout Japan, onsite interview examinations will be held by inspectors and examiners sent to interview venues across Japan, and TV interview examinations will be held via the Internet using the applicants’ own PCs. An onsite interview examination office and TV interview examination office will be established in INPIT-Kinki (tentative name) that is slated to open by October, and the major dates for onsite interviews will be scheduled. Additionally, a region-based patent promotion program will be implemented, in which an onsite interview examination and seminar on patent rights are held at the same time, intended for corporate cluster regions, such as research parks and universities, where local SMEs, venture enterprises, and research facilities are concentrated. (Ongoing)

13. Promotion of intellectual property financing**[Fiscal 2017 budget: ¥130 million]**

A comprehensive initiative that promotes financing by financial institutions based on intellectual properties will be implemented, such as by providing IP business assessment documents that contain easy-to-understand information about businesses that utilize SME patents and other intellectual properties to financial institutions that find it difficult to assess the patents and intellectual properties of SMEs. (Ongoing)

14. Program for promotion of businesses that utilize Japanese intellectual properties**[Fiscal 2017 budget: ¥270 million]**

The following initiatives will be implemented via JETRO, to support the promotion of overseas business expansion through the use of intellectual properties of medium enterprises, SMEs and regional organizations that have acquired a regional collective trademark. (Ongoing)

- (1) Comprehensive support will be provided, from the organization of seminars in Japan and overseas, to the formulation of business plans using local specialists and arranging presentation meetings with business partners.
- (2) Business meetings with business partners will be arranged, through participation in overseas trade fairs and business meetings.
- (3) Information will be disseminated to companies participating in this program in multiple languages, with consideration to preventing the outflow of technologies.
- (4) The necessary surveys for overseas business expansion will be carried out, such as for seeking candidate local partners.

15. Program for strengthening capacities to support the intellectual properties of regional SMEs**[Fiscal 2017 budget: ¥200 million]**

To promote the protection and utilization of the intellectual properties of SMEs through detailed support in consideration of the various issues and regional characteristics of SMEs, Bureaus of Economy, Trade and Industry will seek pioneering and advanced initiatives for supporting intellectual properties from highly motivated regional support organizations, provide support for their implementation. (Ongoing)

16. Subsidy for trade insurance against IP lawsuits overseas**[Fiscal 2017 budget: ¥60 million]**

To allow SMEs to take measures against IP lawsuits overseas, support was provided for the initiatives of an overseas IP lawsuit insurance system, which is operated by a membership of nationwide SMEs, to provide funds to cover for the cost of IP lawsuits overseas.

Subsidies will be granted to a nationwide organization of SMEs, to subsidize 1/2 the premium of overseas IP lawsuit insurances. By reducing the burden of paying the insurance premium, the program will encourage subscription by SMEs. (Ongoing)

17. Dispatch of business producers for regional revitalization**[Fiscal 2017 budget: Included in ¥130 million]**

With the objective of expanding business functions in the regions, three “business producers” will be dispatched to three institutions to support the development of an environment that is conducive to creating businesses, by helping to identify hidden needs that could lead to business, procure business capital by matching the needs with seeds through the creation and utilization of a regional network that includes financial institutions, and cultivate a market. (Ongoing)

18. Provision of patent information

In response to advanced and diversified user needs for patent information, the Industrial Property Digital Library (IPDL) was revamped, and a new service for patent information provision called Japan Platform for Patent Information (J-PlatPat) was launched in March 2015. Through a user-friendly interface, J-PlatPat allows searches through official bulletins for patents in Japan, utility model patents, designs, and trademarks, and inquiries regarding the progress of patent applications. Between January and March 2018, new functions are planned to be added to the patent and utility model search function, to allow searches of English documents in foreign patent journals (U.S., EU, international applications) and searches by combinations of categories and key words.

Furthermore, to enable foreign patent documents and particularly the increasing numbers of Chinese and South Korean patent documents to be searched in Japanese, the Chinese and Korean Document Translation and Search System was launched in January 2015, and the Foreign Patent Information Service (FOPISER) was launched in August 2015 for referencing patent information in the ASEAN and foreign countries that are prominent destinations of overseas expansion by Japanese enterprises.

These services are available free of charge via the Internet.

Section 7 Promotion of standardization**1. Promotion of the strategic utilization of standardization by medium enterprises and SMEs**

Standardization of outstanding technologies and products of medium enterprises and SMEs will be further promoted by utilizing the Standardization

System for New Market Creation that is based on the 2016 revision of the Japan Revitalization Strategy (approved by the Cabinet on June 2, 2016) and IP Promotion Plan 2016, and the Japanese Standards Association (JSA) will cooperate with local government bodies, industrial promotion organizations, regional finance institutions, and university and public research institutions (partner institutions), in increasing the number of partner institutions of the Standardization Support Partnership System, to provide information and advice concerning the strategic regional utilization of standardization. Also under the system, seminars will continue to be held on the strategic utilization of standardization by medium enterprises and SMEs. Furthermore, the support framework for the acquisition of overseas certification by SMEs will be strengthened through cooperation with JETRO and testing/certification institutions and the development of a framework for provision of overseas certification. (Ongoing)

Appended notes



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Appended note 1-2-1 Concerning analysis of SME life cycle and productivity

The analyses of SME life cycle and productivity in Part I, Chapter 2, were verified based on the analytic results determined by the *Commissioned project concerning the analysis of SME revitalization*, commissioned by the SME Agency and conducted by RIETI. This section provides supplementary information regarding this project.

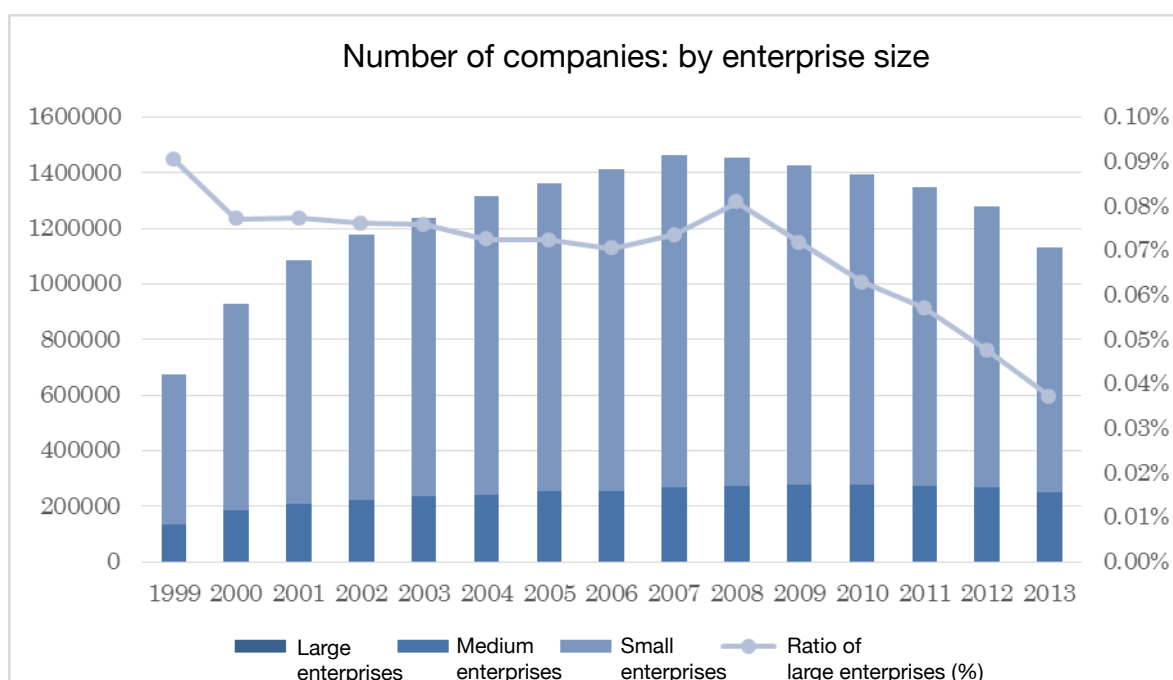
1. Data employed in the analysis

The data employed in the analysis were individual data drawn from the SME Credit Risk Database (referred to as “CRD” below) compiled by the CRD Association based on transaction data held by credit guarantee associations and government and private sector financial institutions throughout the country.

As of 2013, the CRD recorded data for some 1.2 million companies, with the majority being small enterprises, based on the classifications specified by the Small and Medium-sized Enterprise Basic Act. The CRD includes data for sole-proprietor businesses in addition to incorporated companies; as of 2013, incorporated companies represented approximately 80% of the entities recorded in the database. With regard to the industrial affiliations of the companies recorded in the database, the proportion of construction, manufacturing, wholesale and retail companies is comparatively high. With regard to the proportion of companies recorded in the CRD for which it was possible to estimate labor productivity and total factor productivity (“TFP” below), the productivity indicators employed in the analysis, it was possible to estimate labor productivity for more than 90% of companies, and TFP for around 70% of companies. Restricting the focus to the companies for which it was possible to estimate TFP, the share of retail companies was low in this category.

Appended figure 1

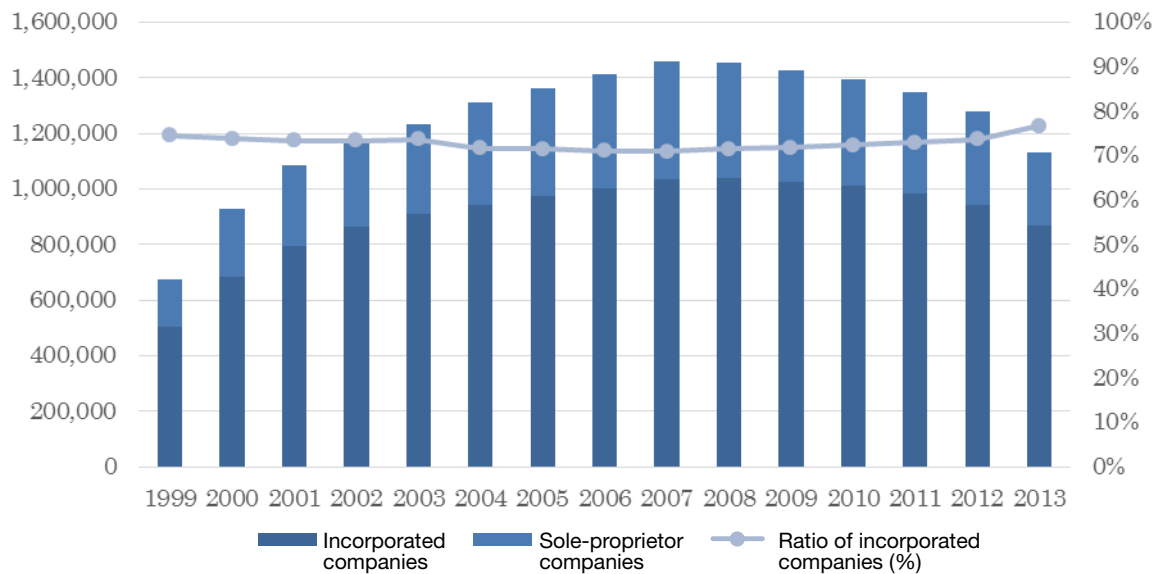
Number of companies recorded in the CRD



Appended figure 2

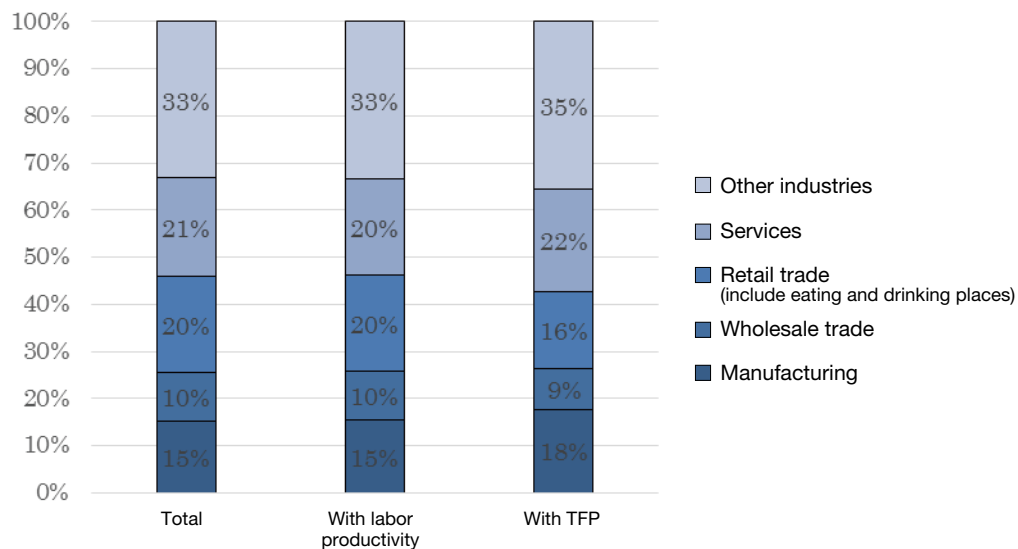
Composition of incorporated companies and sole-proprietor companies

Number of companies: by incorporated or sole-proprietor companies

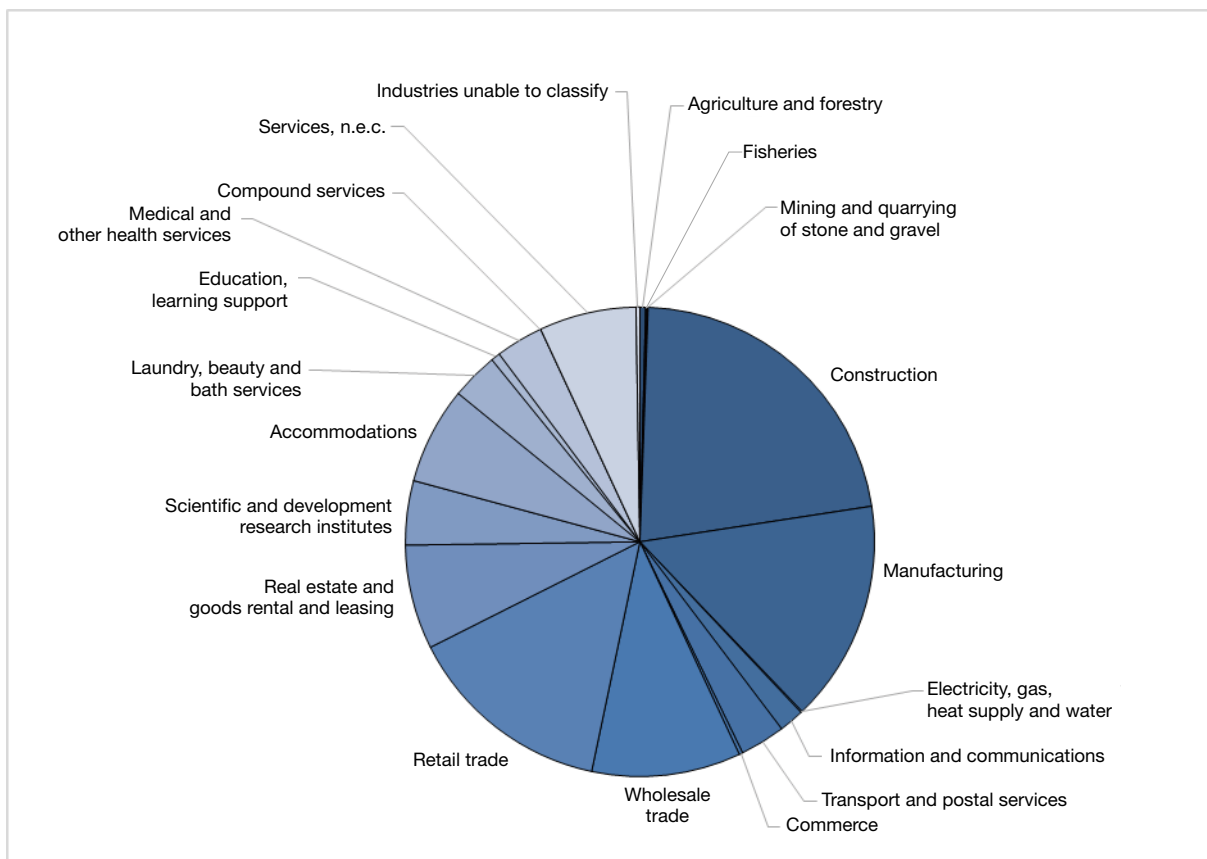


Appended figure 3

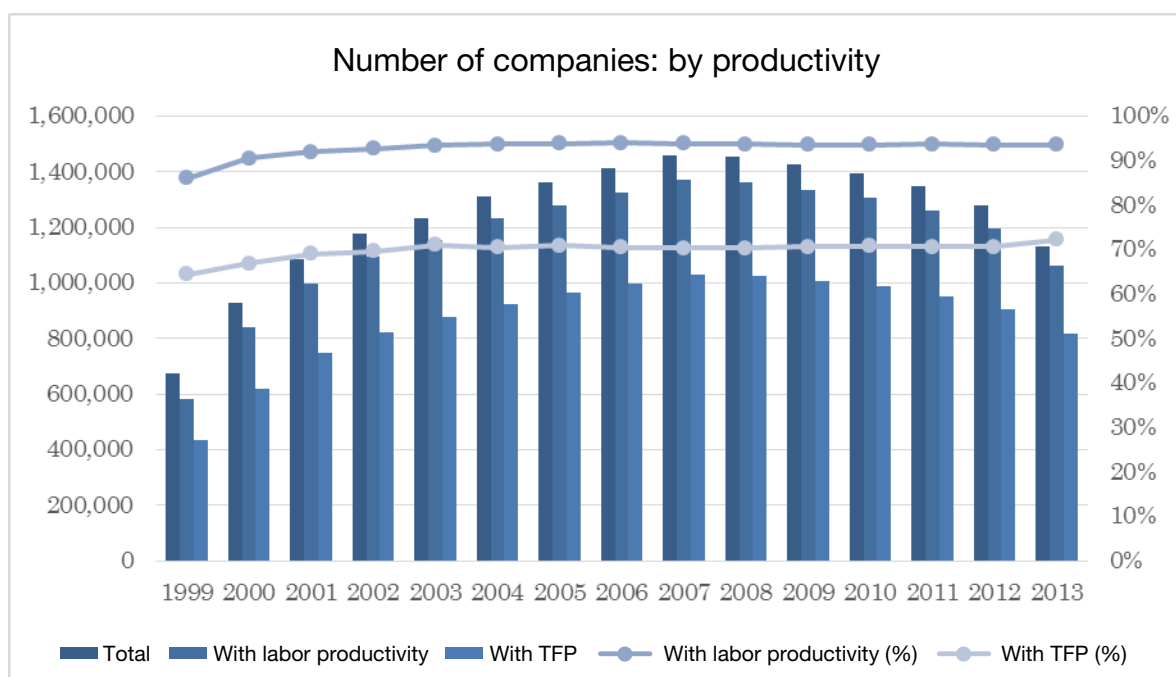
Proportion of manufacturing and non-manufacturing companies (based on Small and Medium-sized Enterprise Basic Act)



Appended figure 4 Industry composition of CRD (by large industrial classification)



Appended figure 5 Number of companies for which productivity could be measured



2. Concerning the estimation of labor productivity and TFP in the analysis

This section provides supplementary information regarding methods of estimation of labor productivity and TFP in the analysis.

1) Labor productivity

$$\text{Labor productivity} = \frac{\text{Value added}}{\text{Labor input}}$$

- Value added = Sales revenue/Operating income – Cost of sales/Operating expenses – Selling costs and General management expenses [103] + Personnel costs + Rental fees + Taxes and dues + Depreciation costs
- Labor time = (Number of employees at end of period + 1) × Average labor time¹⁾

2) Total factor productivity (TFP)

In order to estimate TFP, production functions were postulated with gross output as production and intermediate input, labor input and capital input as input factors. (See 4. below for greater detail regarding the method of estimation employed).

- Gross output
= Sales revenue/Operating income (In the case of non-commercial companies)
= Sales revenue/Operating income – Cost of sales/Operating expenses + Labor costs + Rental fees (Cost) + Taxes and dues (Cost) (In the case of commercial companies)
- Intermediate input = Cost of sales/Operating expenses + Selling costs and General management expenses – Personnel costs – Rental fees – Taxes and dues – Depreciation costs
- Labor input = (Number of employees at end of period + 1) × Labor time per person × Labor quality index¹⁾
- Labor cost = Cost of labor + Personnel costs
- Capital input = Capital stock × Capital quality index*
- Capital cost = Capital stock × Capital services price

3. Concerning the relationship between labor productivity and TFP

In Part I, Chapter 2, it is indicated that the relationship

“Rate of increase in labor productivity = Rate of increase in TFP + Capital share × Capital equipment ratio” holds between labor productivity and TFP. This section provides supplementary information regarding the method of derivation of this relationship.

When taking capital and labor as production factors and assuming the Cobb-Douglas production function, the relationship among value added (Y), total factor productivity (A), capital input (K), labor input (L), and labor share (α) is as follows.

$$Y = A \times K^{(1-\alpha)} \times L^{\alpha} \quad \dots \textcircled{1}$$

Dividing both sides by L and expressing labor productivity (Y/L) as LP and the capital equipment ratio (K/L) as KL gives the following relationship:

1) Estimated figures (estimated individually for industry x scale) based on figures published in the Basic Survey on Wage Structure (Ministry of Health, Labour and Welfare) for various years were employed for average labor time and the labor quality index. Because the classifications of the scale of companies employed in the Basic Survey did not correspond with the classification into medium enterprise and small enterprise based on the Small and Medium-sized Enterprise Basic Act employed in the analysis, figures estimated based on the Basic Survey for companies with 100–999 employees were assigned to medium enterprises, and figures estimated for companies with 10–99 employees were assigned to small enterprises.

$$LP=A \times (KL)^{1-\alpha} \quad \dots \textcircled{2}$$

③ can be derived by total differentiation of ②

$$\frac{LP'}{LP} = \frac{A'}{A} + (1-\alpha) \frac{KL'}{KL} \quad \dots \textcircled{3}$$

Because $1-\alpha$ expresses the capital share, the relationship

“Rate of increase in labor productivity = Rate of increase in TFP + Capital share \times Rate of increase in capital equipment ratio” holds.

4. Concerning methods of measurement and factor analysis for rate of change in productivity in the analysis

This section provides supplementary information regarding methods of measurement and factor analysis for the rate of change of productivity in SMEs employed in the analysis, using TFP as an example.

1) Concerning the method of calculation of TFP for each company

In the analysis under consideration, relative TFP against the industry average was calculated for each company, with the CRD industry classifications coordinated with the industrial classifications employed in the JIP 2015 Database (RIETI). See the JIP 2015 Database homepage²⁾ for the detailed industrial classifications.

As discussed in Good, Nadiri and Sickles (1997), the logarithmic values of company f 's TFP, at time t ($t > 0$) are defined as follows, in comparison with the logarithmic value of TFP for a representative company in the relevant industry at the starting time ($t=0$; in the case of this analysis, 2003).

For $t=0$

$$\ln TFP_{f,t} = (\ln Q_{f,t} - \overline{\ln Q_t}) - \sum_{i=1}^n \frac{1}{2} (S_{i,f,t} + \overline{S_{i,t}}) (\ln X_{i,f,t} - \overline{\ln X_{i,t}}) \quad (1)$$

For $t \geq 1$

$$\begin{aligned} \ln TFP_{f,t} = & (\ln Q_{f,t} - \overline{\ln Q_t}) - \sum_{i=1}^n \frac{1}{2} (S_{i,f,t} + \overline{S_{i,t}}) (\ln X_{i,f,t} - \overline{\ln X_{i,t}}) \\ & + \sum_{s=1}^t (\overline{\ln Q_s} - \overline{\ln Q_{s-1}}) - \sum_{s=1}^t \sum_{i=1}^n \frac{1}{2} (\overline{S_{i,s}} + \overline{S_{i,s-1}}) (\overline{\ln X_{i,s}} - \overline{\ln X_{i,s-1}}) \end{aligned} \quad (2)$$

Here, $Q_{f,t}$ is the value of production for company f in period t , $S_{i,f,t}$ is the cost share of production factor i for company f , and $X_{i,f,t}$ is the quantity of production factor i input by company f . A line drawn above a variable indicates that variable's industry average. Capital, labor and the real value of intermediate inputs are considered as production factors. Because no data exist for labor time at the company level, statistics for the average value for each industry were used. Companies for which data for the average value of production in the relevant industry, value of intermediate inputs, and cost share of production factors were available were set as representative companies.

The first and second terms on the right-hand side of Equation (2) express the deviation between the logarithmic values of the TFP levels of company f and the representative company at time t . The third and fourth terms express the deviation between the logarithmic values of the TFP levels of the representative company at time t and the representative company at the starting time. Taking into consideration the fact that TFP for the representative companies changes with time, the

2) <http://www.rieti.go.jp/jp/database/JIP2015/index.html>

TFP indexes measured in this way can be read not only as a transversal productivity distribution, but also as a productivity distribution over time. Unlike the measurement of productivity via the estimation of production factors, this method presents the advantage of enabling consideration of differences in factor inputs between companies and imperfect competition in product markets; however, it also presents the limitation of necessitating the assumption of constant returns to scale and perfect competition in production factor markets.

2) Concerning the method of aggregating TFP at the industry level

The method employed by Baily, Hulten and Campbell (1992) was used to aggregate TFP at the company level at the production level. The logarithmic value of industry TFP for year t was defined as follows:

$$\ln TFP_t = \sum_{f=1}^n \theta_{f,t} \ln TFP_{f,t}$$

Here, $\ln TFP_{f,t}$ is the logarithmic value of the company's TFP level, and $\theta_{f,t}$ is the nominal sales share of company f in the industry to which it belongs.

3) Concerning the methodology employed for decomposition of factors in change in TFP

The decomposition methodology discussed by Foster, Haltiwanger and Krizan (2001) (termed the “FHK decomposition methodology” below) was employed to decompose factors in change in TFP.

The FHK decomposition methodology is able to identically decompose changes in the logarithm of TFP for a specific industry from a base year, $t - \tau$ (the base year can be later than the initial zero point in time) to a comparison year, t , as the sum of the following five effects:

Within effect: $\sum_{f \in S} \theta_{f,t-\tau} \Delta \ln TFP_{f,t}$

Between effect: $\sum_{f \in S} \Delta \theta_{f,t} (\ln TFP_{f,t-\tau} - \overline{\ln TFP_{t-\tau}})$

Covariance effect: $\sum_{f \in S} \Delta \theta_{f,t} \Delta \ln TFP_{f,t}$

Entry effect: $\sum_{f \in N} \theta_{f,t} (\ln TFP_{f,t} - \overline{\ln TFP_{t-\tau}})$

Exit effect: $\sum_{f \in X} \theta_{f,t-\tau} (\overline{\ln TFP_{t-\tau}} - \ln TFP_{f,t-\tau})$

Here, S is the aggregate of the companies that have remained in existence from the base year to the comparison year, and N and X respectively are the aggregates of companies that have entered and companies that have exited the market³⁾. Lines above variables indicate averages calculated for all the companies in the industry, and Δ is the difference between $t - \tau$ and t .

The first term, the within effect, assumes that the market share of each company does not change in the period from the base year to the comparison year, and shows to what an extent the TFP of all SMEs changes as a result of changes in the TFP of each company. The second term, the between effect, shows the extent to which TFP for all SMEs changes as a result of increase (or decrease) in the comparison year of the market share of companies whose TFP was higher (or lower) than the industry average in the base year. The third term, the covariance effect, shows the extent to which TFP for all SMEs

3) In the event that, hypothetically, a company's main business changes from industry i to industry j during the period $t-1$ to t , and that this business maintains a high (or low) level of TFP in both industries, it will cause a decline (or increase) in the average productivity of industry i , and an increase (or decline) in the average productivity of industry j . In this analysis, effects of this type produced by transitions in industry type are included in the entry and exit effects.

changes as a result of increase or decrease in the market share of companies whose TFP has changed in the period between the base year and the comparison year. The total of the second and third terms shows the extent to which TFP changes for all SMEs as a result of the redistribution of resources between surviving companies, and is known as the “redistribution effect.” The entry and exit effects show the extent to which TFP for all SMEs changes as a result of the entry (commencement of business) or exit of companies whose TFP was higher (or lower) than the industry average in the base year.

4) Concerning the method of specifying surviving companies, companies commencing business, and exiting companies in the analysis

In conducting the decomposition analysis discussed in 3), it was necessary to discriminate between surviving companies, companies commencing business, and exiting companies. This section will provide additional information regarding the method employed in the analysis.

Companies for which data existed for both the base year and the comparison year, and for which business failure had not been confirmed (the company was neither *de facto* bankrupt, bankrupt, nor subject to subrogation in the comparison year or before), were considered to be surviving companies.

Of companies for which data existed for the comparison year and not for the base year, those companies that had been established for no more than three years in the base year were considered to be companies commencing business. For example, “companies commencing business” in the third period (2009–2013) were companies that had been established from 2006.

Of companies for which data existed for the base year but not for the comparison year, companies that did not correspond to either “Companies making the transition to become large companies” or “Companies that have repaid their loans,” as defined below, were considered to be exiting companies.

- Companies making the transition to become large companies

These were companies the number of employees and amount of capital of which exceeded the conditions for an SME at the time predicted for their exit by the regression model. With the rate of growth of the number of employees and the rate of growth of capital for each year as the explained variables, estimates were conducted employing the regression model using data for surviving companies in which, among the explanatory variables, the natural logarithms of the number of employees and capital at the initial point of each period, and the rate of growth of the number of employees and the rate of growth of capital (including the annual effect), were positive.

- Companies that have repaid their loans

These were companies with an amount of outstanding loans of zero or below at the time predicted for their exit by the regression model. With the natural logarithm of the decline in the loan amount for each year as the explained variable, estimates were conducted employing the regression model using data for surviving companies in which, among the explanatory variables, the natural logarithms of the number of employees and the loan amount at the initial point of each period, the rate of increase in the loan amount one year previously, the rate of increase in the loan amount two years previously, and the decline in the loan amount (including the annual effect) were positive.

The analysis was conducted with failed companies and discontinued companies classified as exiting companies. Failed companies were those exiting companies that were either *de facto* bankrupt, bankrupt, or subject to subrogation. Discontinued companies were companies that did not satisfy the abovementioned conditions for a failed company. However, due to limitations in the data, in this analysis a company was treated as a discontinued company when the company relocated its headquarters, when the company changed its name, when the company realized growth in excess of that predicted by the regression model, and when the company became a subsidiary of another company as the result of an M&A.

5) Concerning the method of correction of the results of the analysis using the 2014 Economic Census for Business Frame

Given the characteristics of the CRD discussed in 1. above, the results of the decomposition analysis of factors in change in TFP conducted in the analysis were corrected based on the *2014 Economic Census for Business Frame*. The ratio of sole

proprietor and incorporated companies, the ratio of medium enterprises and small enterprises, and the industry composition ratio in the CRD differ from those of the general population. Weighting and aggregation were therefore performed in order to ensure that these three ratios corresponded. For example, the total and the average of each company's sales were calculated as follows:

$$\text{Total sales} = \sum_i (\text{weight for company } i \times \text{company } i \text{ sales})$$

$$\text{Average sales} = \frac{\sum_i (\text{weight for company } i \times \text{company } i \text{ sales})}{\sum_i (\text{weight for company } i)}$$

The weighting for each company was determined as follows: First, companies were divided into separate groups based on <Sole proprietor / Incorporated company (2 divisions)> × <Medium enterprise / Small enterprise (2 divisions)> × <Industry (17 divisions)>, for a total of 68 divisions. Next, the total number of employees for companies belonging to each group was determined, and the ratio of this figure to the total number of employees for all companies in the CRD was calculated. Using figures published in the *2014 Economic Survey for Business Frame* as data for the general population, the ratio of the total number of employees for each group to the total number of employees in the general population was determined in the same way. The weighting for each company was determined by dividing the ratio of the number of employees of the group to which the relevant company belongs in the general population to the total number of employees in the general population by the ratio of the number of employees in that group in the CRD to the total number of employees in the CRD.

6. Concerning the method of comparing discontinued companies and surviving companies

In order to determine the characteristics of discontinued companies, these companies were compared with surviving companies. However, to ensure the rigor of the comparison, discontinued companies were not compared with all surviving companies, but with surviving companies the status of which resembled the status of discontinued companies before they were discontinued (surviving companies corresponding to discontinued companies). The method of isolating the subjects of the comparison was as follows.

First, minimum and maximum values for the contribution to the effect of discontinuation (difference with market share × industry average TFP) were calculated for individual discontinued companies. Next, hypothetical figures for contribution to the effect of discontinuation (difference with market share × industry average TFP) were determined for individual surviving companies, and the surviving companies that fell within the range of the minimum and maximum figures for discontinued companies were isolated as the subjects of the comparison. In addition, taking into consideration the possibility that the distribution of the contribution to the actual effect of discontinuation by discontinued companies and the distribution of the contribution to the hypothetical effect of discontinuation by the surviving companies might differ, the contribution of actual discontinued companies to the effect of discontinuation was divided into deciles, and weighting was applied to ensure that the ratio of surviving companies isolated as subjects of comparison allotted to each quantile would correspond to the ratio of actual discontinued companies in each quantile. Under these conditions, statistical quantities related to the characteristics of the surviving companies (ratio of companies with management successors, average number of employees/volume of sales, etc.) were calculated, and the companies were compared with discontinued companies.

Appended note 2-1-1 Funding for new start-ups: Overview of system

Eligible borrowers	<p>Individuals satisfying any of the following conditions(*)</p> <ol style="list-style-type: none"> Individuals starting a business in the same industry as the company that they currently work for, who satisfy either of the following conditions: <ol style="list-style-type: none"> Individuals who have been continuously employed for six years or more by the company that they currently work for Individuals who have worked for a total of six years or more in the same industry as the company that they currently work for Individuals who have worked continuously for two years or more in a job closely related to skills, etc. that they acquired at university, etc., and who wish to start a business in an industry closely related to that job Individuals starting a business that responds to diverse needs by adding original elements to technologies, services, etc. Individuals starting a business that will create employment Individuals starting a business that is subject to Specified Start-up Support as stipulated by Article 2, Paragraph 23(i) of the Act on Strengthening Industrial Competitiveness. Individuals who have received support from a regional revitalization promotion support business in order to start a business Individuals who have received support from a regional revitalization support network participated in by government financial institutions in order to start a business Individuals who have received joint financing from a private sector financial institution and a government financial institution in order to start a business Individuals who have started a business satisfying any of requirements 1–8 who started a business no more than seven years previously. <p>(*) Individuals operating businesses related to community health are eligible for a “community health-related business loan,” and individuals operating a business retailing foodstuffs, etc. are eligible for a “food-related business loan,” and are not able to make use of this system.</p>
Loan uses	Capital required to start up a new business or for a business started up previously
Maximum amounts loaned	¥72 million (including ¥48 million for working capital)
Loan interest rate	<p>Standard interest rate</p> <p>Individuals satisfying any of the following conditions are eligible for a special interest rate:</p> <ol style="list-style-type: none"> Working capital and capital expenditure for individuals(*) receiving investment (including convertible bonds, pre-emption rights, stock acquisition rights and bonds with stock acquisition rights) from an investment limited partnership funded by the Organization for Small & Medium Enterprises and Regional Innovation, Japan Working capital and capital expenditure necessary for businesses opened in empty stores in shopping districts operated by Shopping District Promotion Associations that have formulated an approved shopping district revitalization plan Working capital and capital expenditure for individuals(*) displaying novelty in terms of technologies, knowhow, etc. (Excluding funds for the acquisition of land) <p>(*) Must satisfy specific conditions</p>
Loan term	<p>Capital expenditure: Up to 20 years <deferred up to 2 years></p> <p>Working capital: Up to 7 years <deferred up to 2 years></p>
Applicable financial institutions	<p>Japan Finance Corporation (Micro Business and Individual Unit)</p> <p>Okinawa Development Finance Corporation</p>

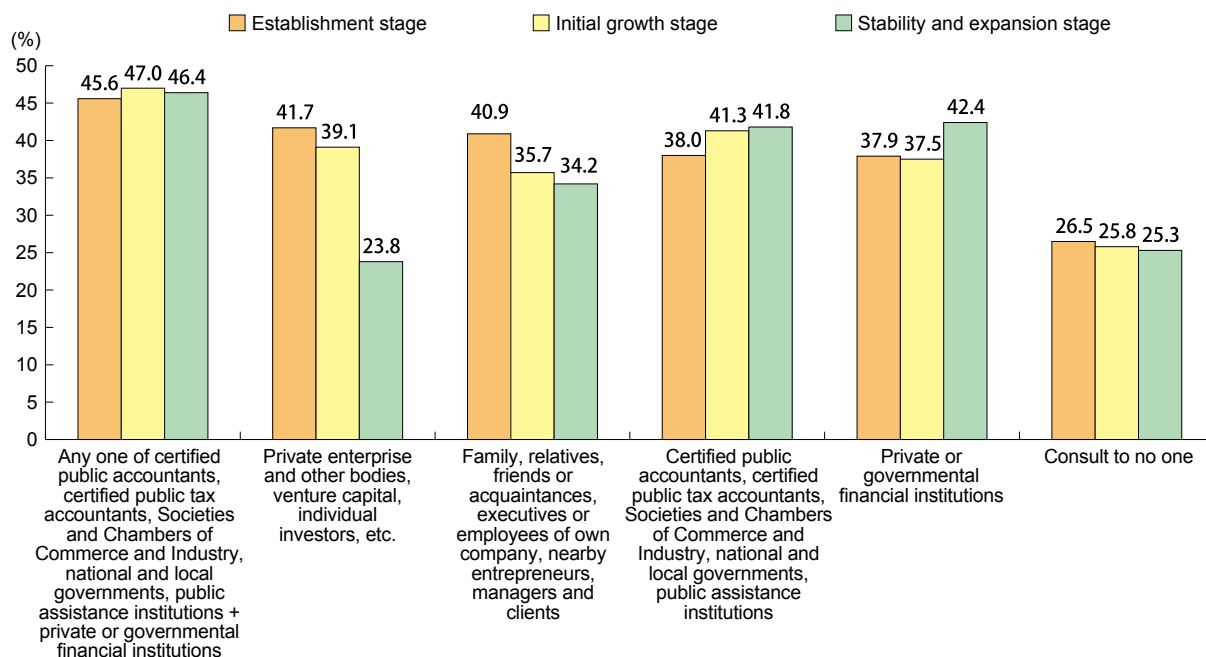
Appended note 2-1-2 Funding for female, young and senior entrepreneurs: Overview of system

Eligible borrowers	Women and individuals aged under 30 or over 55 who are starting a new business or who have started a new business within the past seven years
Loan uses	Capital required to start up a new business or for a business started up previously
Maximum amounts loaned	<p>SME Unit: ¥720 million (including ¥250 million for working capital)</p> <p>Micro Business and Individual Unit: ¥72 million (including ¥48 million for working capital)</p>
Loan interest rate	<ol style="list-style-type: none"> Facility and equipment funds (Funds for acquisition of land): Standard interest rate Working capital and capital expenditure for individuals(*) displaying novelty in terms of technologies, knowhow, etc. (Excluding funds for the acquisition of land): Special interest rate <p>(*) “Individuals displaying novelty in terms of technologies, knowhow, etc.” refers to the following:</p> <ul style="list-style-type: none"> Individuals operating a business making use of intellectual property including patents and trademarks Individuals operating a business that will receive a technological development-related grant from the government, etc. Individuals employing two or more R&D personnel, representing 10% or more of full-time executives and staff (Limited to companies that have been incorporated for less than two years) Individuals for whom experiment and research expenses represent more than 5% of sales (Limited to companies that have been incorporated for more than five years but less than ten)
Loan term	<p>Capital expenditure: Up to 20 years <deferred up to 2 years></p> <p>Working capital: Up to 7 years <deferred up to 2 years></p>
Applicable financial institutions	<p>Japan Finance Corporation (SME Unit and Micro Business and Individual Unit)</p> <p>Okinawa Development Finance Corporation</p>

Appended note 2-1-3 New start-up financing system: Overview of system

Eligible borrowers	<p>Individuals satisfying requirements 1–3</p> <p>1. Start-up requirement Individuals who are starting a new business or have not yet submitted two tax returns since the establishment of their business</p> <p>2. Requirements related to employment creation, economic activation, work experience and acquired skills, etc. Individuals satisfying any of the following conditions. However, women with a loan balance of ¥3 million or below, including funding received under this system, will be considered to satisfy the requirements (Special Provisions for Small-scale Start-ups by Female Entrepreneurs)</p> <p>(1) Individuals starting a business that will create employment</p> <p>(2) Individuals starting a business that responds to diverse needs by adding original elements to technologies, services, etc.</p> <p>(3) Individuals starting a business in the same industry as the company that they currently work for, who satisfy either of the following conditions:</p> <p>a. Individuals who have been continuously employed for six years or more by the company that they currently work for</p> <p>b. Individuals who have worked for a total of six years or more in the same industry as the company that they currently work for</p> <p>(4) Individuals who have worked continuously for two years or more in a job closely related to skills, etc. that they acquired at university, etc., and who wish to start a business in an industry closely related to that job</p> <p>(5) Individuals starting a business that is subject to Specified Start-up Support as stipulated by Article 2, Paragraph 23(i) of the Act on Strengthening Industrial Competitiveness.</p> <p>(6) Individuals who have received support from a regional revitalization promotion support business in order to start a business</p> <p>(7) Individuals who have received support from a regional revitalization support network participated in by finance corporations in order to start a business</p> <p>(8) Individuals who have received joint financing from a private sector financial institution and a finance corporation in order to start a business</p> <p>(9) Individuals who have started a business satisfying any of requirements 1–8 when starting a business</p> <p>3. Self-funding requirement Individuals for whom it can be shown that their own funds^(*) represent one-tenth or more of total start-up capital at the time of establishment of the company, either prior to the establishment of the company or before a tax return has been submitted following the establishment of the company^(*). However, individuals satisfying the following requirements will be considered to satisfy the self-funding requirement.</p> <p>(1) Individuals satisfying conditions 2(3)–(8) above.</p> <p>(2) Individuals recognized as displaying novelty in the development and manufacture of new products, the development and provision of new services, etc.</p> <p>a. Individuals displaying novelty in terms of technologies, knowhow, etc.^(*)</p> <p>b. Individuals who have received approval for a business innovation plan, or have received authorization for a new business cooperation plan, a cooperative business plan involving agriculture, trade and industry, etc., or a business plan involving the use of regional industrial resources</p> <p>c. Individuals who will require six months or more for the manufacture of products or the provision of services due to conducting research and development towards the commercialization of new products and services and test marketing, and who expect their business to be profitable within three business years</p> <p>(3) Individuals who are scheduled to apply SME accounting principles or guidelines</p> <p>^(*) Funds that are not scheduled to be employed in the business are not included in the entrepreneur's own funds for the purposes of this requirement</p> <p>^(*) Individuals qualifying for the (Special Provisions for Small-scale Start-ups by Female Entrepreneurs) must also satisfy the self-funding requirement</p> <p>^(*) "Individuals displaying novelty in terms of technologies, knowhow, etc." refers to the following:</p> <ul style="list-style-type: none"> • Individuals operating a business making use of intellectual property including patents and trademarks • Individuals operating a business that will receive a technological development-related grant from the government, etc. • Individuals employing two or more R&D personnel, representing 10% or more of full-time executives and staff (Limited to companies that have been incorporated for less than two years) • Individuals for whom experiment and research expenses represent more than 5% of sales (Limited to companies that have been incorporated for more than five years but less than ten)
Loan uses	Capital required for the establishment of a business or following the establishment of a business
Maximum amounts loaned	¥30 million (including ¥15 million for working capital)
Collateral / Guarantor	<p>In principle unnecessary</p> <p>In principle, the system is collateral- and guarantor-free, and responsibility does not extend to individual representatives of the company. If an incorporated company wishes to offer a personal surety from an individual representative^(*), the representative can become a joint guarantor. In this case, the interest rate is reduced by 0.1%.</p> <p>^(*) Including de facto managers and business partners</p>
Applicable financial institutions	<p>Japan Finance Corporation (Micro Business and Individual Unit)</p> <p>Okinawa Development Finance Corporation</p>

Appended note 2-1-4 Rate of sustainable growth enterprises which the sales for recent three years is expanding by growth stage and advisors consulted



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals for responses from sustainable growth enterprises consulted only each of the advisors in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.

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