

**Presentation:**

**Japanese Experience  
in SMEs' Development**

**Supporting SME Development**

**- Lessons and Experiences from Malaysia and Japan -**

**SADC-DFRC's Chief Executive Officers' Forum**

**Maputo, Mozambique**

**June 18, 2015**

**Tetsuya FUKUNAGA**

**TICAD Advisor to DBSA**

**(JICA Long-term Expert)**

# **Contents:**

**I. What are Japanese Private Companies?**

**II. Present Situations of Japanese SMEs**

**III. Why are SMEs important in Japan?**

**IV. “Definition” of SMEs in Japan**

**V. Historical Changes of SMEs’ Policies**

**VI. Supporting Agencies for SMEs’ Policies**

**VII. Major Categories for SMEs’ Supports**

**VIII. Examples**

# I. What are Japanese Private Companies?

## ● Toyota

Established firstly on September, 1933, within Department of “Toyota Industries Corporation” (Loom Manufacturer) → Set up as “Toyota Motor Corporation” on August, 1937 (33.9 thousand employees including consolidated subsidiaries on 2014)

## ● Honda

Established on October, 1946 (19.9 thousand employees including consolidated subsidiaries on 2014)

## ● Sony

Established on May 1946 (14.6 thousand employees including consolidated subsidiaries on 2013)

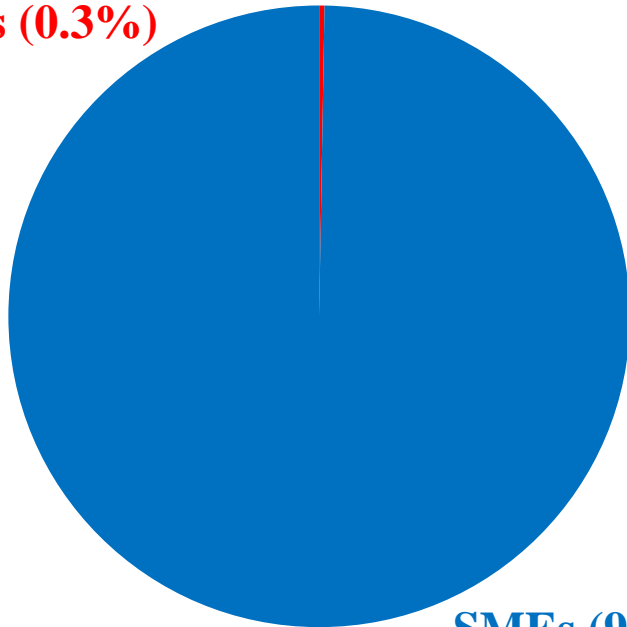
→ Many Japanese private companies were started as SMEs at their beginnings in the process of economic and industrial development.

# II. Present Situations of Japanese SMEs

## Number of enterprises:

Total: 3,863.5 thousand enterprises

LEs (0.3%)



SMEs (99.7%)

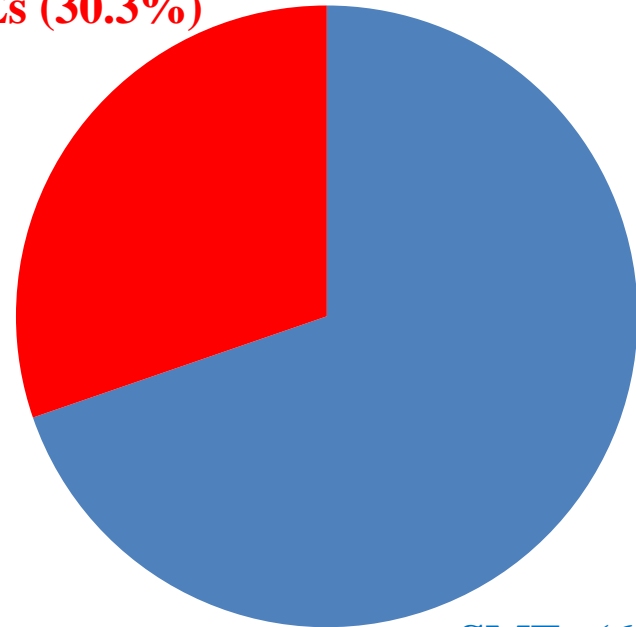
LEs: 10.6 thousand enterprises

SMEs: 3,852.9 thousand enterprises

## Number of employees:

Total: 46,138.9 thousand employees

LEs (30.3%)



SMEs (69.7%)

LEs: 13,971.4 thousand employees

SMEs: 32,167.5 thousand employees

\*LEs: Large Enterprises

# III. Why are SMEs important in Japan?

## Industrial structure (Automotive industry):

Not only for Japanese automotive industry but also for foreign automotive industry



## Local SMEs:



## Local retailers:



(Source) Izumi, Naoki. 2015. Japan's Policies for Small and Medium Enterprises.

# IV. “Definition” of SMEs in Japan

## 1. Present Definition by SME Basic Act (Revised on 1999)

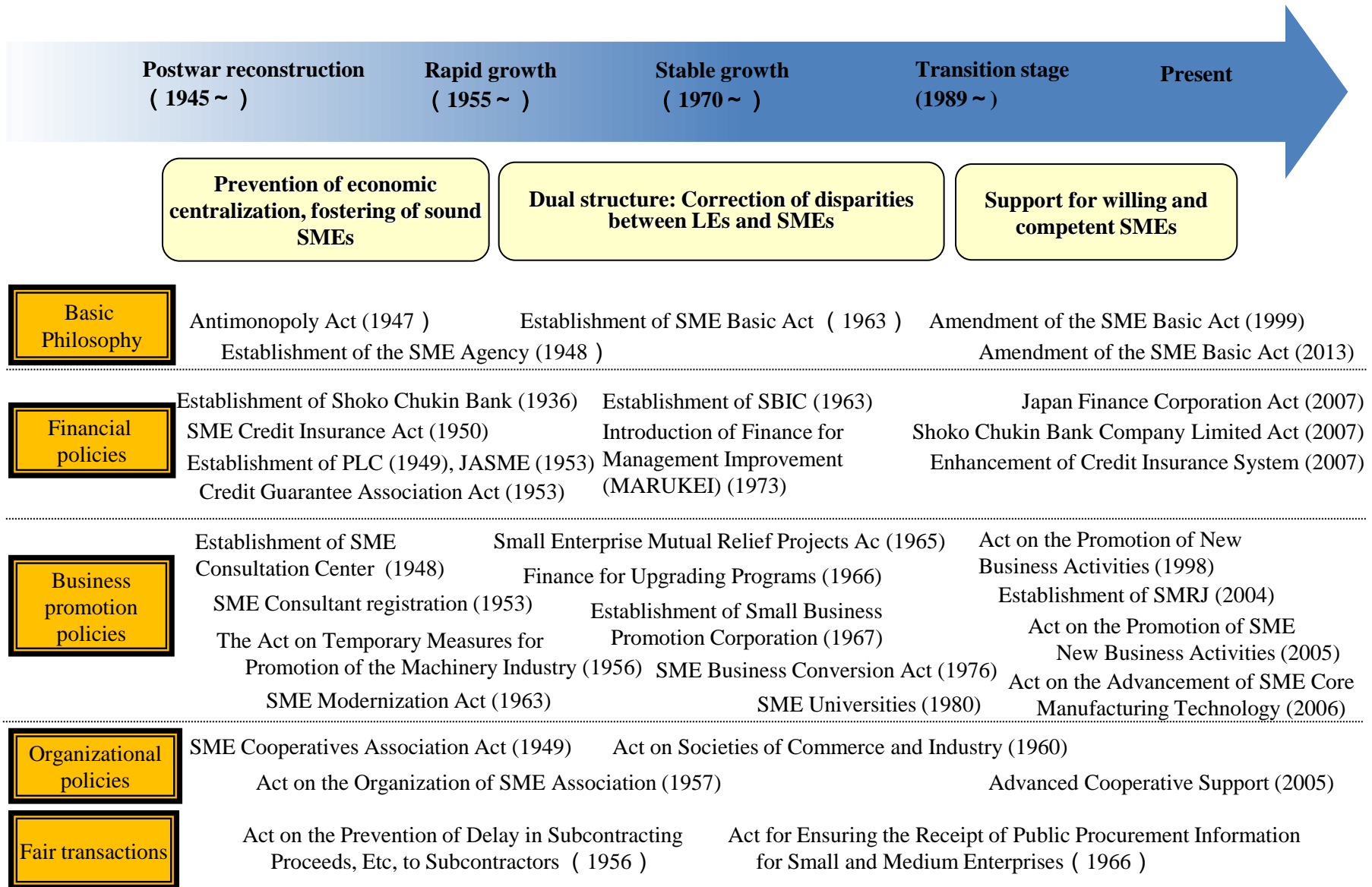
Industry	SMEs		Micro Enterprises
	Capital	No. of employees	No. of employees
<b>Manufacturing, Construction and Transportation</b>	Up to 300 million JPY (=2.5 million USD)	Up to 300	Up to 20
<b>Wholesale</b>	Up to 100 million JPY (=833 thousand USD)	Up to 100	Up to 5
<b>Services</b>	Up to 50 million JPY (417 thousand USD)	Up to 100	Up to 5
<b>Retail</b>	Up to 50 million JPY (417 thousand USD)	Up to 50	Up to 5

## 2. Previous Definition by SME Basic Act (1963)

Industry	SMEs		Micro Enterprises
	Capital	No. of employees	No. of employees
<b>Manufacturing, Construction and Transportation</b>	Up to 50 million JPY (417 thousand USD)	Up to 300	Up to 20
<b>Wholesale, Services and Retail</b>	Up to 10 million JPY (417 thousand USD)	Up to 50	Up to 5

(Source) Ministry of Economy, Trade and Industry.

# V. Historical Changes of SMEs' Policies (1)



(Source) Ministry of Economy, Trade and Industry.

# V. Historical Changes of SMEs' Policies (2)

## Situations of Japanese Economy

Postwar Reconstruction  
1945-

Rapid Economic Growth  
1955-

Stable Economic Growth  
1970-

Transition

1989-

Present

## Basic Concepts for Policies and Institutions toward SMEs

Prevention of economic centralization and fostering of sound SMEs

Correction of "Dual" Economy:  
Correction of disparities between LEs and SMEs

Support of willing and competent SMEs

## From Individual Acts to Handle SMEs' Issues and Constraints to Establish SMEs Specific Act

Establishment of SME Act (1963)

Image to SMEs:  
Socially vulnerable

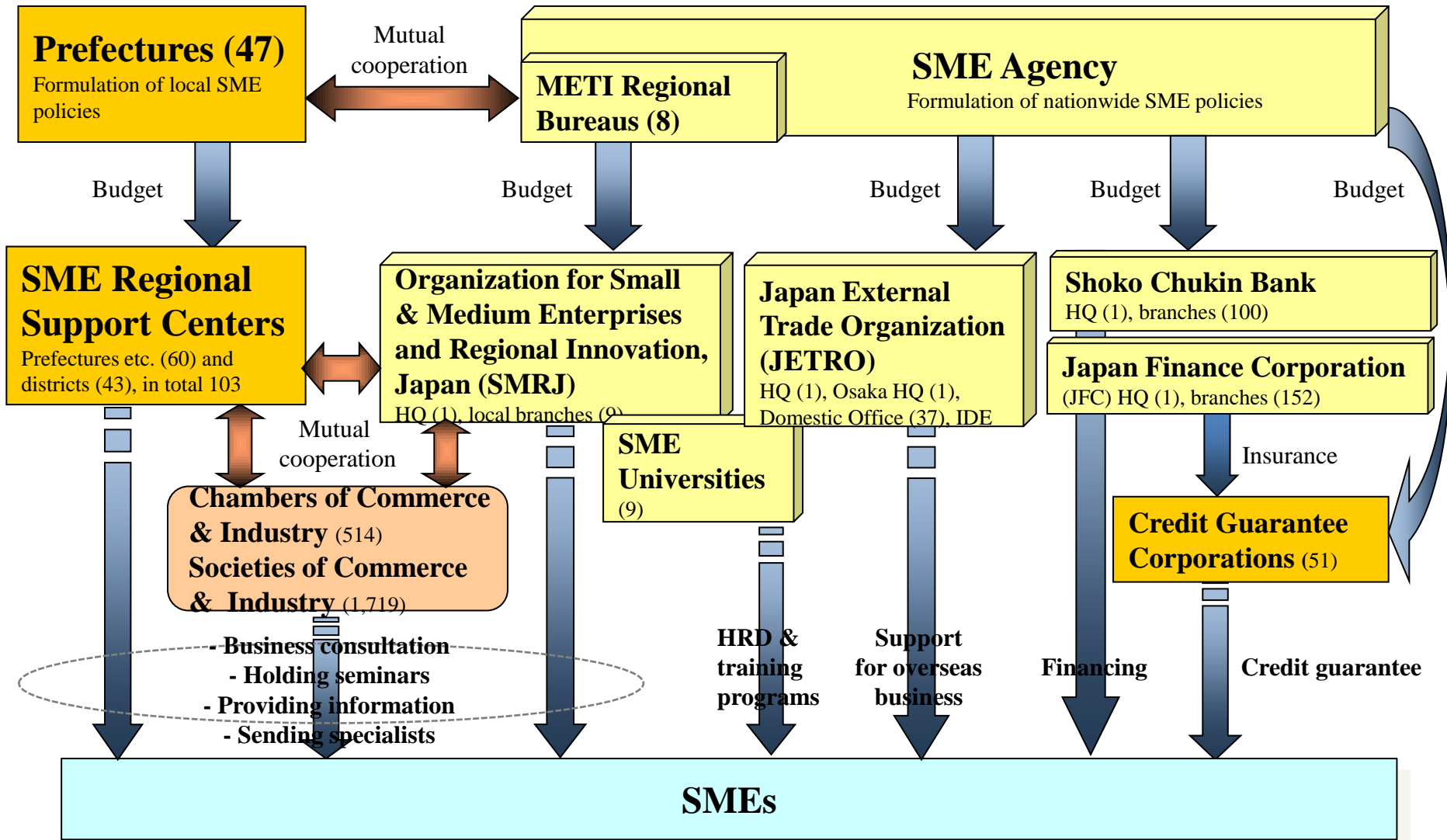


Established of "Revised" SME Act (1999)

Image to SMEs:  
Source of base and dynamics of Japanese economy

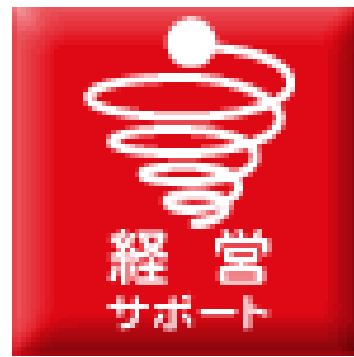


# VI. Supporting Agencies for SMEs' Policies



(Source) Ministry of Economy, Trade and Industry.

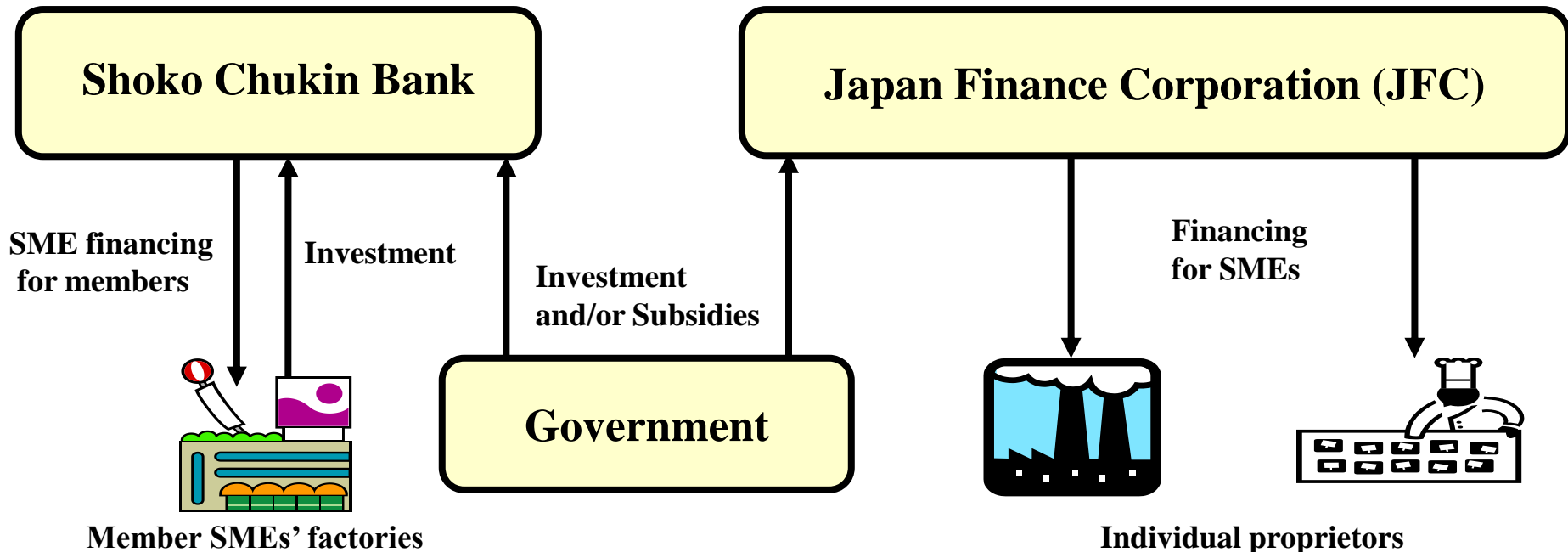
# VII. Major Categories for SMEs' Supports



- 1 Financial support: loan and credit guarantee support
- 2. Financial & Management support: Management Improvement
- 3. Financial support: Tax relief and Accounting guideline
- 4. Financial & Management support: business revitalization or transfer
- 5. Management support: Support of business transaction and expansion
- 6. Management support: Support for technology development
- 7. Management support: Human resources support
- 8. Support of local commercial districts
- 9. Information dissemination

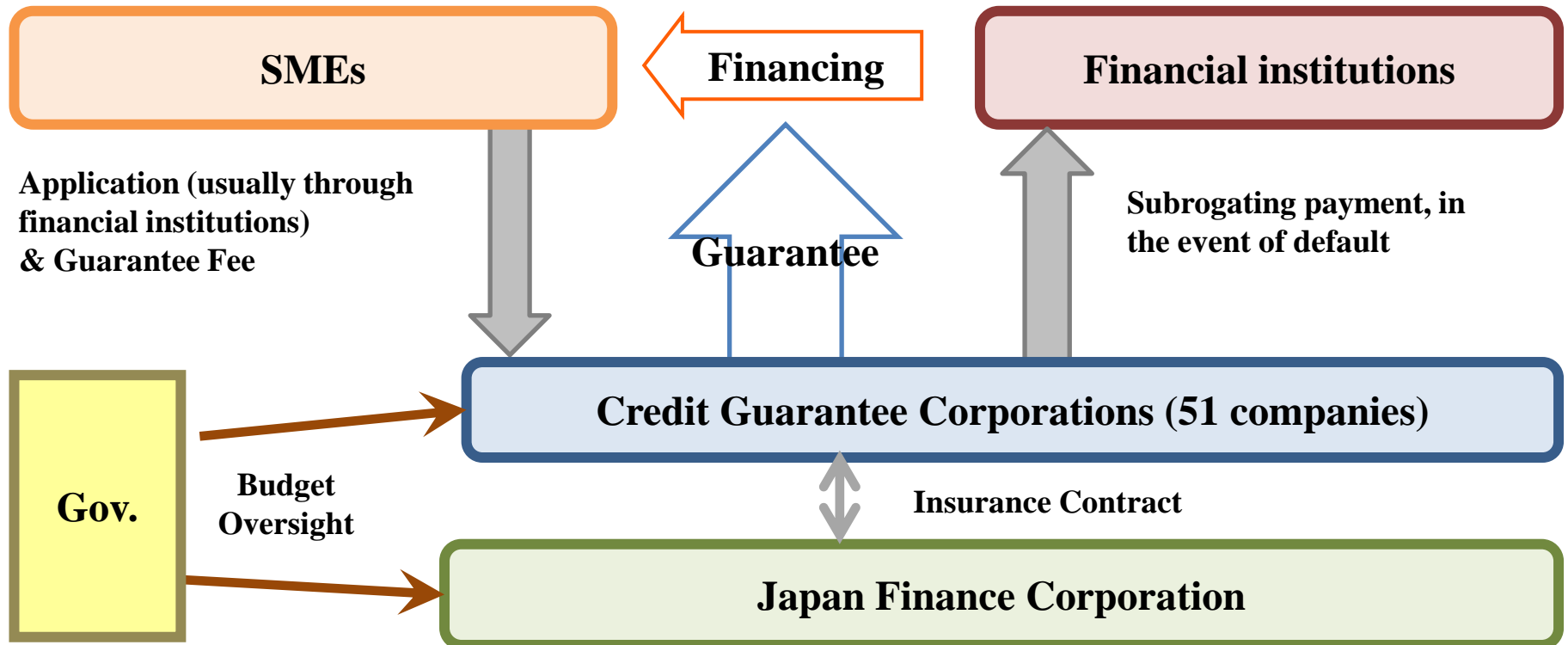
## VIII. Examples (1): Loans

- **Securing financing for operations is a key business priority. Government-affiliated financial institutions provide about 10% of all loans to SMEs. Added to official credit guarantees, the ratio rises to 20%.**
- **Specifically, public SME financing includes: (1) policy financing (finance for startups and overseas development) and (2) safety net financing (finance for enterprises whose business conditions are temporarily deteriorating or which are affected by natural disasters (earthquakes, typhoons and so on)).**



# VIII. Examples (2): Credit Guarantee

- Credit Guarantee Corporations (51 offices across Japan) make credit guarantee contracts with financial institutions (lenders of loan to SMEs) in order to support SMEs, which generally have limited credibility and collateral, in access to financing.
- In the event of default, Credit Guarantee Corporations subrogate payment.



# VIII. Examples (3): Tax Reduction

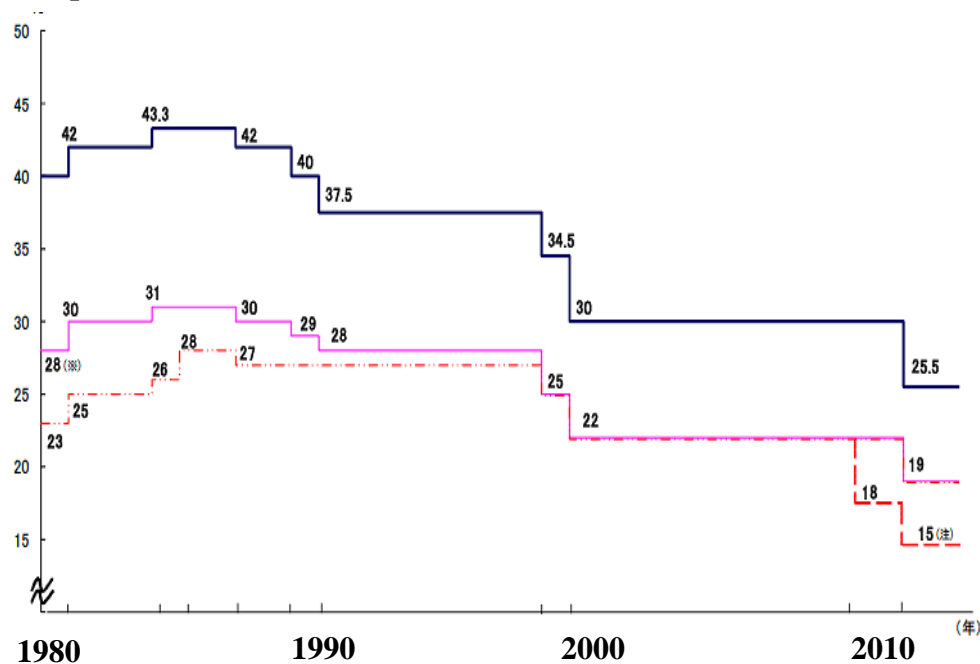
## Corporate Tax Rates:

	Category	Tax Rate
Large Companies(LEs) (whose capital is more than 100 million JPY)		25.5%
	Annual income over 8 million JPY	19%
Small and Medium-sized Companies(SMEs) (whose capital is up to 100 million JPY)	Annual income over 8 million JPY	19%
	Annual income up to 8 million JPY	15%

**Special tax relief measures are available for SMEs for capital investments, R&D, HRD, business succession and so on.**

- 30% special depreciation for acquisition costs or 7% tax deduction for capital investments
- 12% tax deduction of R&D costs
- Tax moratorium on inheritance tax (80%) and donation tax (100%) on unlisted stocks for business succession.

Corporate Tax Rate



**Thank you very much**  
**for your attention!**

**Tetsuya FUKUNAGA**  
**TICAD Advisor to DBSA**  
**(JICA Long-term Expert)**

**fukunaga.jpn@gmail.com**  
**tetsuyaf@dbsa.org**

**(+27)79-074-8617**