

What Is the Japan Finance Corporation?

The Japan Finance Corporation (JFC) was established on October 1, 2008 through the merger of the National Life Finance Corporation, the Agriculture, Forestry and Fisheries Finance Corporation, the Japan Finance Corporation for Small and Medium Enterprises, and International Finance Operations of the Japan Bank for International Cooperation. We asked the Governor and CEO **Shosaku Yasui**, who was formerly the president of Teijin Limited and the governor of the Japan Finance Corporation for Small and Medium Enterprises, about the characteristics and management policy of JFC and the expected effects of the merger.

The Japan Journal: JFC was established as a result of the merger of government policy-based financial institutions. Can you explain the characteristics and management policy of JFC as the only government policy-based financial institution?

Shosaku Yasui: As a result of the merger of the four government-affiliated financial institutions, JFC is the only government-affiliated financial institution in Japan. In association with the merger, JFC was established as a stock company. However, JFC

differs from other financial institutions in that the Japanese government holds 100% of the stock and JFC implements the government's policies and complements private financial institutions. Its target customers are all the businesses throughout Japan (excluding Okinawa), including small and medium-sized enterprises (SMEs), businesses in the agriculture, forestry, and fisheries industry, and overseas companies operating overseas that the Japan Bank for International Cooperation has provided with loans. JFC plans to merge with Okinawa Development Finance Corporation in 2012 or later. After the merger, literally all businesses across the nation will be able to be provided with loans.

JFC's management principles are, simply stated, implementing policy-based finance accurately and emphasizing governance. It is most important to provide policy-based finance in line with national policy. Our management principles include taking rational approaches that are adopted in the private sector and enhancing transparency as a stock company to fulfill our accountability. We aim to provide a wide range of services and improve customer convenience by maintaining and bolstering the expertise accumulated by each institution that has merged into JFC and sharing knowledge across the board.

Based on its management principles, JFC has formulated five business guidelines: (1) Improving customer service, (2) Contributing to the development of the Japanese economy and international economy, (3) Contributing to local and regional revitalization, (4) Addressing environmental issues, and (5) Creating self-fulfilling workplaces.

Can you explain the main points of policy-based finance in each unit?

The Micro Business and Individual Unit has 1.19 million customers that are mainly individuals and small companies. The average balance of loans is 6 million yen to 7 million yen. We provide more than 20,000 loans to start-up businesses each year (businesses that are not yet inaugurated and those that have been operating for less than one year), and we expect the unit to contribute to job creation and regional economies. The Small and Medium Enterprise (SME) Unit has 46,000 corporate customers. About 60% of the loans are for more than five years, with an average amount of 70 million yen to 80 million yen. JFC provides long-term loans that private financial institutions find it difficult to grant. JFC works together with about 80% of the regional financial institutions through joint financing and other means. In the Agriculture, Forestry, Fisheries and Food Business Unit, the average loan term is as long as sixteen years, reflecting the characteristics of the agriculture, forestry and fisheries industry, including long production cycles and low profitability. The Japan Bank for International Cooperation provides loans mainly for projects in countries with a high level of country risk. In this way, JFC, as a policy-based financial institution, complements private financial institutions.

Loans to SMEs had declined in recent years, but they began to remain level with the previous year in the third quarter of FY2007 and have been exceeding the year-ago level since the beginning of FY2008. In particular, safety-net loans grew significantly from the beginning of FY2008. They are increasing 20% to 30% year on year in the Micro Business and



JFC Governor and CEO Shosaku Yasui

Individual Unit and the Small and Medium Enterprise (SME) Unit. As the past has shown, finance corporations' loans to SMEs fall when the economy is strong and rise when the economy is weak. SMEs are experi-

tions are now working in the same workplace, young employees, in particular, are exchanging ideas and furthering efficient operations.

There are some concrete effects of the consolidation. Firstly, each branch

this year. Since all the participants were customers of the finance corporations, they were comfortable discussing specific technical and business issues. Results have already been produced in business matching. For example, JFC linked a manufacturer of a regional brand of salted Japanese apricots called Nankobai to an egg business. The egg business purchased the residue from the manufacturing process to use as feed, which led to improved egg quality.

We are able to provide a wide range of services as a result of the synergy effects of the merger. In particular, the consolidation of business units into one organization has made it possible to generate new work and products through business matching, and to add value to them.

encing very difficult circumstances because of the worsening domestic economy due to the effect of the global financial crisis. In the circumstances, the government forged an economic policy in October to expand the guarantee system and loans from JFC to SMEs.

What are the effects of the merger? Can you explain the main points?

One of the effects of the merger is the improvement of customer service and streamlining of operations. The consolidation of offices is an example of this. We have made it a rule to consolidate offices if there is more than one office of former finance corporations. Before the merger, the National Life Finance Corporation, Japan Finance Corporation for Small and Medium Enterprises, and Agriculture, Forestry, Fisheries Finance Corporation had 152, 61, and 22 branches respectively nationwide. After the merger, however, JFC has consolidated them to 152 branches. Due to physical constraints, some branches have more than one office. We are consolidating these offices one by one. I visited some branches after the merger and confirmed that the consolidation of offices had achieved certain outcomes. Internal harmony and the streamlining of operations have begun. For example, since employees from different organiza-

now provides information on the financial services offered by all units. In the Agriculture, Forestry, Fisheries and Food Business Unit, forty-eight offices have been established in all prefectures excluding Okinawa. Due to the increase in offices, customer service improved. Some of the 152 branches do not have specialized staff in all units, but customers can use video-phones at these branches to contact specialized staff. Secondly, while we maintained and bolstered operations expertise in each organization prior to the merger, we are allowing each unit to share knowledge and networks across the organization. This enables us to encourage business matching and collaboration between agriculture, commerce and industry. Thirdly, we can now provide services, including support for the globalization of operations, through an information service for companies operating overseas that use the information and knowledge provided by JBIC.

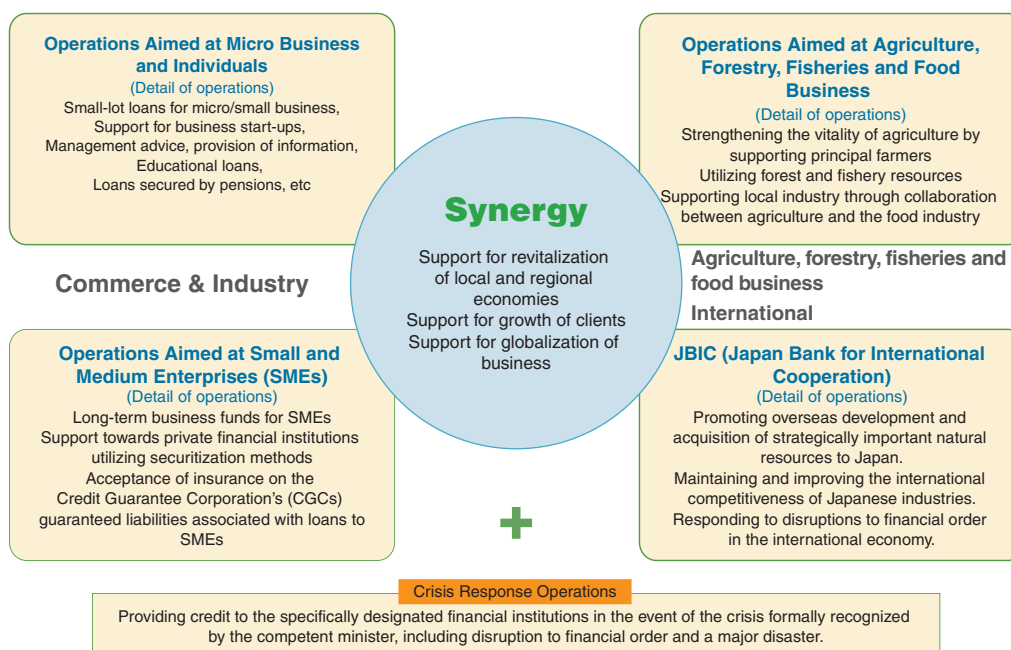
Overall, we have come to a point where we are able to provide a wide range of services as a result of the synergy effects of the merger. In particular, the consolidation of business units into one organization has made it possible to generate new work and products through business matching, and to add value to them. About 750 companies participated in a business matching meeting organized by JFC

What are your views on SMEs that are considering making inroads into overseas markets?

JBIC, the international wing of JFC, is supporting SMEs in not only finance but also information using overseas representative offices in nineteen countries, so that the Japanese industry can maintain and improve its international competitiveness and deal with the turmoil in the international financial market. SMEs that are considering launching overseas operations are basically divided into two categories: SMEs advancing overseas that are seeking markets for their products, and SMEs launching overseas operations to supply materials to major manufacturers setting up operations overseas. Particularly in the former case, many SMEs experience difficulties due to a lack of information on local investment conditions such as employment conditions, business practices and security. There are some cases where an employee who has been transferred abroad needs to take care of his or her own production management, personnel affairs and sales. If we provide local information and methods of dealing with problems that have been compiled by our representative offices, it will make a difference to their management of local operations. We plan to provide services such as this in a methodical manner.

Measures to support SMEs are attracting attention in the global financial crisis. What are your views on this?

SMEs have problems with the recovery of demand and financing. As I al-



ready explained, we are providing safety-net loans and other loans for SMEs and helping them strengthen their financial base. Now is the time for us to fulfill this function as a policy-based financial institution. Particularly in December, when financing is required before the end of the year, we are taking appropriate action to support SMEs. For example, we are extending the hours of our telephone consultation service to 7 p.m. on weekdays, and are providing the service on Saturdays, Sundays and national holidays. In addition to loans, we operate in the credit insurance business and are taking risks on 80% of the amount that credit guarantee corporations nationwide have guaranteed for SMEs in the form of insurance. With regard to the measures that the government has developed to support SMEs during the current financial crisis, JFC is assuming two roles: direct financing and credit insurance. The guaranteed amount is increasing. It will take considerable time to solve SMEs' problems, or for demand to recover, because domestic economic policy alone will not be able to solve the problems. Based on this understanding, we need to provide SMEs with solid support.

What will happen to SMEs that have loans at present, and what is the outlook for them? I believe that depends on how the SMEs maintain and

exercise their strengths. SMEs with high technical capabilities support the foundations of the Japanese economy. Technical capabilities and market share are critical to the management stability of SMEs. The management of SMEs will stabilize if they have technologies and a certain market share, even if they operate in a niche market. For example, most small and medium-sized manufacturers of auto parts used to work with only one auto manufacturer. However, these parts manufacturers are beginning to supply their products to customers other than auto manufacturers or general distribution channels. The Japanese economy needs to accelerate the trend, which will enable SMEs to exercise their strengths, which in turn will support the Japanese economy in the future.

To support the trend, JFC is not only bolstering its consulting service based on its experience and knowledge, but is also providing training to employees who are in contact with customers. JFC has a research institute that conducts research on SMEs. The institute provides results of research investigations for customers. We are reviewing overlapping research areas after the merger, especially between research on the Micro Business and Individual Unit and Small and Medium Enterprise (SME) Unit. We will help SMEs exercise their strengths by providing research achievements.

The government is attaching importance to measures for SMEs to help the mature Japanese economy grow further. Bolstering SMEs will lead to an increase in Japan's international competitiveness. Although Japan does not have a great deal of natural resources, it has the power of human resources, or technological capabilities. Technological capabilities are not affected by the rise and fall of the economy. The same applies in the current global financial crisis. Businesses are based on technologies, and it is important to enhance technologies. The role of JFC is to support the development of technologies and help SMEs grow and develop. It is important to support SMEs so they can overcome the current crisis. But that is only short-term, emergency assistance. The important question from the medium- to long-term perspective is how far ahead of other countries Japan will be able to advance through innovation. I am sure that SMEs will bring about technological innovations and create new products as they have done in the past. Innovations might also occur in the environment industry or biotechnology industry. Either way, I believe that the role of JFC is to unite the efforts of its three domestic units and JBIC to support the future of SMEs and the future of Japan. □

Interview by Hitoshi Chiba, The Japan Journal