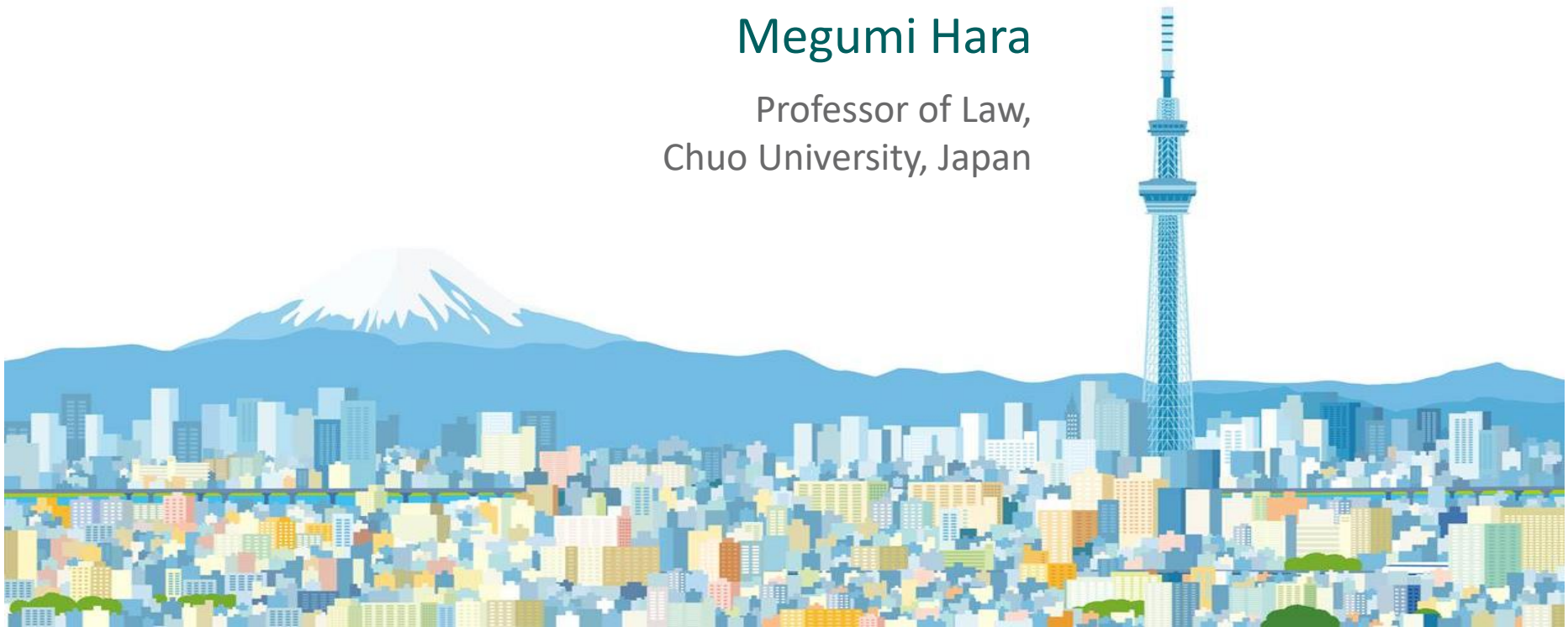


Facilitating Access to Credit: Japan's Experience

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Access to credit for MSMEs



Major ways to facilitate access to credit for MSMEs

Market-based financing facilitated through secured transactions (ST) frameworks and/ or personal guarantees

International consensus on ST built through the works of UNCITRAL

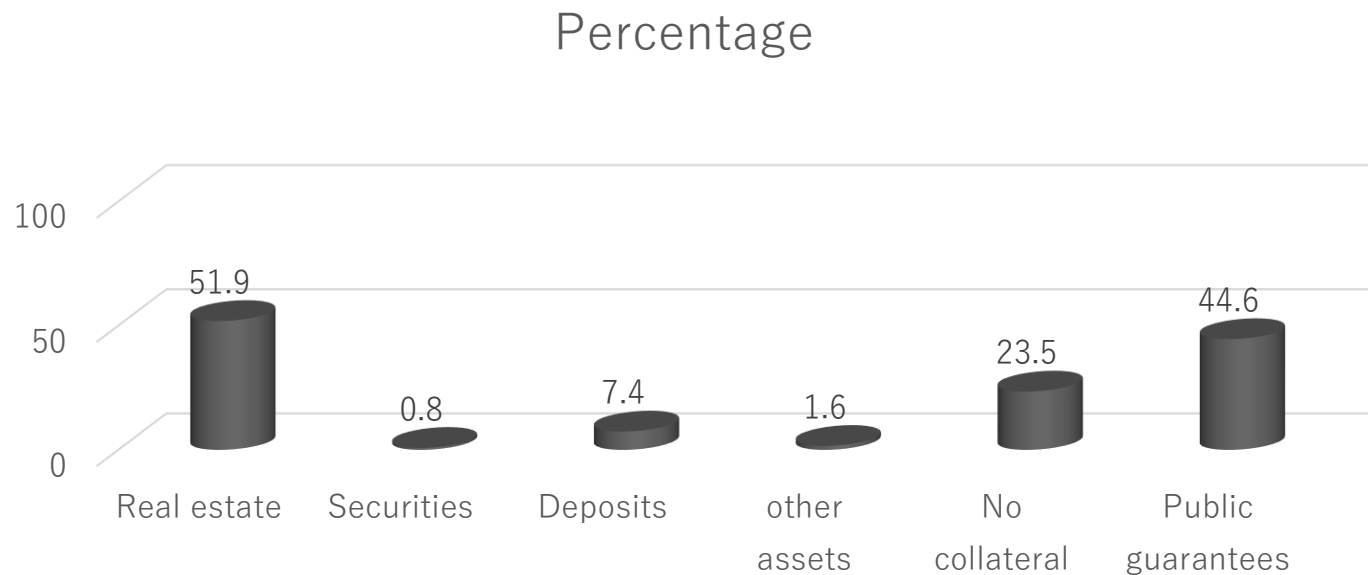
Government-supported financing through public guarantee schemes

Financing Environment in Japan



1. 99% of businesses are SMEs employing 70% of the private sector
2. Low productivity, profitability and growth
3. Ultra-low interest rate environment
4. Popular usage of the credit guarantee system (7.3% of the GDP)

Percentage of Security Mechanisms Used in Japan



Ono, Arito, et al., A New Look at Bank-Firm Relationships and the Use of Collateral in Japan: Evidence from Teikoku Databank Data, in *The Economics of Interfirm Networks* (T. Watanabe, I. Uesugi, and A. Ono, eds.) 191-214 (2015)

Why is Personal Property not Used as Collateral?

Lack of adequate legal framework



No law on non-possessory SI

Lack of clear priority

Enforcement issues

Lack of registry



Lack of easy access

Lack of transparency due to co-existing Civil Law priority rules

Lack of know-how on movable asset lending



Lack of experience with this type of financing

Do not have staff with the necessary skills

Lack of regulatory rules



No proper licencing system

Prudential requirements that disincentivise the lender

Role of Credit Guarantee Schemes: Pros and Cons

- **Public institution that provides guarantees to lenders (80% of the lent amount)**

Cons

- Lack of incentives for financial institutions
- Preventing the diversification of various financing sources
- Disincentivising growth of MSMEs

Pros

- Safety net in the time of a crisis
- Back-up if proven inability to obtain market credit
- Fostering lending practices



Some Challenges and solutions/prospects in Japan

- Lack of capacity to assess the creditworthiness of loan applicants
- Lack of legal framework for security interest over movable assets/ All-asset security interest
 - Law reform project
- Preferable treatment for capital requirements
 - Revisions leading up to the Abolishment of Inspection Manual



UNCITRAL's work on access to credit for MSMEs

Sources of financing

Family and friends support

Debt tools
Commercial credit, credit card, lease etc...

FinTech tools

Facilitating access to credit for MSMEs

secured transactions frameworks

UNCITRAL
Model Law

personal guarantees

public guarantee schemes

“Guide” to Access to credit for micro, small and medium-sized enterprises (MSMEs) by WG1

