

# **COVID-19: IMPLICATIONS ON SMALL AND MEDIUM ENTERPRISES (SMEs) IN JAPAN**

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The Coronavirus (Covid-19) outbreak has affected all business sectors. The state of emergency, limited movement order and social distancing are amongst the preemptive efforts of the Japanese government to safeguard the public health. While recognizing the importance of preventing the immense spread of the virus, there are certain unexplored impacts of the movement control measure on the SMEs in Japan. The objective is to scrutinize the repercussions of the Covid-19 on the SMEs in Japan. The study applies qualitative approach through the analysis on the secondary data from internet, as well as from the Japanese official government and business association. This article intends to scrutinize the actual implications of the Japanese's state of emergency on SMEs businesses and to identify the survival strategies of the business. Thus, this study differs from other methods such as other quick online surveys that commonly conducted by market surveys. Our findings contribute towards the actual challenges faced by the SMEs during the pandemic crisis.

Keywords: Covid-19, state of emergency, small and medium enterprises (SMEs), business, strategy

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## **INTRODUCTION**

2020 is a challenging year for most countries. The presence of Coronavirus disease 2019 (Covid-19) is a major threat that has been causing paralysis of the world economy. Covid-19 that hit the world not only worsening the health of the world's population but also an economic condition in

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many countries, including Japan. Preventive measures by governments have resulted in a global economic crisis, and every economic sector feels its impact. The coronavirus or has been known as Covid 19 was first found in Wuhan, China, at the end of 2019 and it later quickly spread from China throughout the world. This type of virus commonly affects humans and animals, to be its host. In humans, coronavirus has four strains that cause mild clinical symptoms, usually referred to as the common cold and two other strains are more lethal which are SARS-CoV and MERS-CoV that cause fatality rates (CFRs) of 9.6 percent and 34.4 percent, respectively.<sup>5</sup> Coronavirus causes symptoms typical of the common cold, by infecting the nose, sinuses, or upper throat, and they are spread through sneezing, coughing, or direct contact.<sup>6</sup> Because this is a new viral challenge to humans, there is no pre-existing immunity in humans and everyone is assumed to be a susceptible host to COVID-19.<sup>7</sup>

Many factors that cause the virus to rapidly spread around the world such as, the timing and global environment. Just before the outbreak, 739 international air travel routes were originating from China, and, on average, 51 million people traveled between China and another country per year.<sup>8</sup> Wuhan, which is the birthplace of the Covid 19 virus is one of the largest and busiest transportation hubs in China, which is known as "Chicago of China". There are many train stations that connect to each other, including to other states in China, and the existence of a bullet train or high-speed trains. Usually, Wuhan has about 30,000 users daily of public transport. The outbreak intensified right before the peak travel for the Chinese Lunar New Year which is on 25 January 2020 and two weeks after the New Year day, which more than 3 billion trips typically occur in a normal year.<sup>9</sup> These movements can be the factors on how Covid 19 did not take much time to easily spread all around the world.

In Japan, the COVID 19 outbreak that started in early 2020 can be divided into two waves based on the statistics released by the Japanese Ministry of Health, Labour, and Welfare. The first wave of Covid 19 happened in January through travelers and returnees from China and caused numerous infection clusters across the country before moving through its disappearance in March 2020. On 10 January 2020, Japan confirmed its first Covid 19 case from a traveler from China who started getting the flu after a few days of his arrival in China as a resident of Kanagawa Prefecture. On 27 January, Prime Minister Shinzo Abe labelled the novel coronavirus as a designated infectious disease under the Infectious Diseases Control Law and he also designated the disease as a quarantine infectious disease under the Quarantine Act.<sup>10</sup> The first wave in Japan

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<sup>5</sup> Jennifer Bouey, Assessment of COVID-19's Impact on Small and Medium-Sized Enterprises: Implications from China, *Rand Corporation*, March 10, 2020, available at: <https://www.rand.org/pubs/testimonies/CT524.html>, accessed on 28 March, 2021.

<sup>6</sup> Walter Sim, Japan Confirms First Case of Infection from Wuhan Coronavirus; Vietnam Quarantines Two Tourists, *The Straits Times*, January 17, 2020, available at: <https://www.straitstimes.com/asia/east-asia/japan-confirms-first-case-of-infection-with-new-china-coronavirus>, accessed on 28 March, 2021.

<sup>7</sup> Jennifer Bouey, Assessment of COVID-19's Impact on Small and Medium-Sized Enterprises: Implications from China, *Rand Corporation*, March 10, 2020, available at: <https://www.rand.org/pubs/testimonies/CT524.html>, accessed on 28 March, 2021.

<sup>8</sup> Jennifer Bouey, Assessment of COVID-19's Impact on Small and Medium-Sized Enterprises: Implications from China, *Rand Corporation*, March 10, 2020, available at: <https://www.rand.org/pubs/testimonies/CT524.html>, accessed on 28 March, 2021.

<sup>9</sup> Jennifer Bouey, Assessment of COVID-19's Impact on Small and Medium-Sized Enterprises: Implications from China, *Rand Corporation*, March 10, 2020, available at: <https://www.rand.org/pubs/testimonies/CT524.html>, accessed on 28 March, 2021.

<sup>10</sup> Sayuri Umeda, Japan: Cabinet Issues Orders Relating to Infectious Disease Control Act and Quarantine Act, *Global Legal Monitor*, March 11, 2020, available at: <https://www.loc.gov/law/foreign-news/article/japan-cabinet-issues-orders-relating-to-infectious-disease-control-act-and-quarantine-act/>, accessed on 28 March, 2021.

worsened when an outbreak occurred on the cruise ship Princess Diamond that led to nearly 700 infections and seven deaths from Covid-19. The first known case of coronavirus infection on the Diamond Princess was reported on February 1<sup>st</sup> in an ill 80-year-old passenger who left the ship in Hong Kong on 25 January.<sup>11</sup>

While the second wave of Covid 19 outbreak in Japan started in March where MHLW officials announced 71 people have tested positive including 41 cases in Tokyo alone, Governor Yuriko Koike held an emergency press conference following the sudden increase. This is where the government started to restrict people's movements by asking them to work from home if possible and refrain them from going out as much as possible especially on weekdays as the situation is getting worse and the number of infected people keep on increasing. On 1 April, The government established a team within the secretariat of the National Security Council tasked with drafting Japan's strategic response to the coronavirus crisis while improving its competitiveness in the technology and economic spheres.<sup>12</sup>

According to the Paypers site, since the start of 2020, ecommerce in Asia has been grown at an out of the ordinary rate and along with the range of products available online has increase. COVID-19 pandemic has altered consumers' behaviours and accelerated digitization in the region.<sup>13</sup> The latest forecasts from Forrester show that online retail sales in 11 Asia-Pacific countries (Australia, China, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand, and Vietnam) are expected to receive a boost due to COVID-19 and reach USD 2.5 trillion in 2024, with a CAGR of 11.3%.<sup>14</sup> The key factor contributing to this growth is the surge in the amount of groceries bought on the internet. The *online groceries* category has been relatively exceptional due to logistics issues. Forrester also estimates\* that online retail sales in Asia Pacific is expected to get a boost from new buyers due to COVID-19, but at the same time, consumer spending will take a hit due to the slowdown of economies.<sup>15</sup> The forecast comprises of data for 11 Asia Pacific countries — Australia, China, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand, and Vietnam — with China remaining as the largest market, reaching \$2 trillion by 2024 and accounting for 50% of global online retail sales in 2020.<sup>16</sup>

Japan, as one of the largest world's economies, is also affected when the covid pandemic hit the world. One of the economic sectors that was severely affected due to Covid 19's pandemic in Japan is the Small and Medium-Sized Enterprise (SME). SMEs can be categorized as small companies with several categories such as services, retail, wholesale, and even manufacturing. The Ministry of Economy, Trade, and Industry define SMEs by reference to their paid-in capital, the number of employees, and sector. Businesses in the services sector are SMEs if they have no more

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<sup>11</sup> E. J. Mundell, Diamond Princess Saga Began with One COVID Carrier, *WebMD*, 29 July, 2020, available at: <https://www.webmd.com/lung/news/20200729/gene-study-shows-how-coronavirus-swept-through-the-diamond-princessi>, accessed on 28 March, 2021.

<sup>12</sup> Japan Sets Up NSC Team to Meet Coronavirus, Tech Challenges, *Kyodo News*, 1 April, 2020, available at: <https://english.kyodonews.net/news/2020/04/89596a0de1ee-japan-sets-up-nsc-team-to-meet-coronavirus-tech-challenges.html>, accessed on 28 March, 2021.

<sup>13</sup> Joshua Chong, Ecommerce in Asia – Lessons Learnt during the Pandemic, *The Payers*, 19 January, 2020, *The Payers*, available at: <https://thepayers.com/expert-opinion/ecommerce-in-asia-lessons-learnt-during-the-pandemic—1246743>, accessed on 28 March, 2021.

<sup>14</sup> Ibid.

<sup>15</sup> Online Retail Will Reach US\$2.5 Trillion in Asia Pacific by 2024, *Forrester*, 18 September, 2020, available at: <https://thepayers.com/expert-opinion/ecommerce-in-asia-lessons-learnt-during-the-pandemic—1246743>, accessed on 28 March, 2021.

<sup>16</sup> Ibid.

than 50 million yen in paid-in capital and 100 or fewer employees; in the retail sector if they have no more than 50 million yen in paid-in capital and 50 or fewer employees; in the wholesale sector if they have no more than 100 million yen in paid-in capital and 100 or fewer employees; and in manufacturing or other sectors if they have no more than 300 million yen in paid-in capital and 300 or fewer employees.<sup>17</sup> SMEs in Japan. In Japan, SMEs played an important role in the development of the Japanese economy since World War II and helped in accelerating the process of Japanese economic development until Japan succeeded in achieving economic wonders. However, the ongoing pandemic has made a significant impact on SMEs in Japan as 8.5 percent of small and medium-sized industrial enterprises may stop operating if the pandemic persists.<sup>18</sup> Therefore, many efforts have been made by the government to flatten the covid cases and recover their SME sectors.

## **ACTIONS TAKEN TOWARD COVID-19**

To combat Covid 19, Japan's government must take several actions as a measure to flatten covid cases. Although the actions taken by the government are seen as appropriate against Covid 19, at the same time, it has affected the economic journey in Japan, including in the SME sector. One of the actions taken by Japan government was declaring a state of emergency, on 8 April 2020, to seven prefectures in Tokyo, Kanagawa, Saitama, Chiba, Osaka, Hyogo, and Fukuoka, calling on the local governments of these prefectures to implement certain measures to contain the spread of the virus, including urging residents to stay at home.<sup>19</sup> Japan's response can be divided into five major phases: 1) the containment phase, 2) the medical service reinforcement phase, 3) the mitigation phase, 4) the emergency phase, and 5) the recovery phase.<sup>20</sup> This action has given an impact on SME owners as their sales were decreasing due to a lack of customers. Sellers or SME owners are not allowed to operate as usual where they need to shorten their operating hours or completely close their business temporarily, to avoid the spread of Covid 19. Due to the growing number of covid cases, the government lifted the state of emergency for 39 prefectures, which only included 7 states before to another 39 prefectures on 14 May.

During the state of the emergency phase, people strictly need to follow the rules of Japan's government. Designated prefectures will at first request self-restraint of going out while indicating the period and area as necessary. Examples of outings that are not covered by such requests would include activities necessary for maintaining daily life such as visiting hospitals, purchasing food, medicine, and daily necessities, going to work as necessary, exercising outdoors, or taking a walk.<sup>21</sup> For business, the government allowed some businesses to operate for ensuring the stability

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<sup>17</sup> Sakon Kuramoto, Benjamin Miller, and Hiroki Sugita, Declaration of Statement of Emergency and Proposed Financial Support Package Announced by the Japanese Government for SMEs in the Midst of COVID-19 Crisis, *JDSUPRA*, 14 April, 2020, available at: <https://www.jdsupra.com/legalnews/declaration-of-statement-of-emergency-65708/>, accessed on 28 March, 2021.

<sup>18</sup> Hampir 500 Firma Jepun Muflis Sejak Pandemik COVID-19, *BERNAMA*, 7 September, 2020, available at: <https://www.bernama.com/bm/dunia/news.php?id=1877270>, accessed on 28 March, 2021.

<sup>19</sup> Sakon Kuramoto, Benjamin Miller, and Hiroki Sugita, Declaration of Statement of Emergency and Proposed Financial Support Package Announced by the Japanese Government for SMEs in the Midst of COVID-19 Crisis, *JDSUPRA*, 14 April, 2020, available at: <https://www.jdsupra.com/legalnews/declaration-of-statement-of-emergency-65708/>, accessed on 28 March, 2021.

<sup>20</sup> Ai Tashiro, and Rajib Shaw, "COVID-19 Pandemic Response in Japan: What is Behind Flattening of the Curve?" *Sustainability*, Vol. 12, No. 3, 2020, pp. 1-9.

<sup>21</sup> Government Responses on the Coronavirus Disease 2019, *Prime Minister of Japan and His Cabinet*, 1 July, 2020, available at: [http://japan.kantei.go.jp/ongoingtopics/\\_00013.html](http://japan.kantei.go.jp/ongoingtopics/_00013.html), accessed on 28 March, 2021.

of people's lives and the national economy, depending on the characteristics of the business, with fully taking measures to prevent the spread of infection.<sup>22</sup> However, some SME businesses are not essential to be open such as wholesale businesses.

In Japan, a forced lockdown is not possible by law. Therefore, people's behavior and self-consciousness are extremely important for the flattening of the COVID-19 curve. During an emergency, repeated requests from governors, ministers, and the prime minister as well as experts' advice, are conveyed through the media sources. This has a large impact on people's behavior. At the local level, citizen or voluntary organizations played an important role in raising awareness for maintaining "social distancing" and avoiding crowded areas. Besides, after the national emergency was lifted in the third week of May, some of the local governments remained vigilant and prepared to act quickly. For instance, the Tokyo Metropolitan Government-issued Tokyo alerts whenever the number of new affected cases reached double-digits (24, 22, 18 in three consecutive days), and interdicted (using red-colored symbols) Tokyo venues such as the city hall and the rainbow bridge. Additionally, other local governments such as the one from Kitakyushu city alerted its residents and requested the care for self-restraint, whenever new cases in the range of double digits were reported on consecutive days in the city.<sup>23</sup>

These actions taken by both government and their people have assisted them in dealing with Covid 19, even though recent cases are still reported daily. These actions that have been taken are seen as appropriate against Covid 19, but at the same time, it has affected the economic journey in Japan, especially in SMEs sector. According to Teikoku Databank, companies that went bankrupt due to COVID-19 totaled 458 in Japan. Over 80% of them were small or medium in size.<sup>24</sup> This statement shows the impact of Covid 19 towards SMEs is not a small issue and it is just getting serious day by day. Yet, there is little room for optimism. According to Japan's Small and Medium Enterprise Agency, an average restaurant operator has just enough cash to pay for fixed costs, including rent and interest due, for 5.4 months, while the figure for an average accommodation operator is 6.6 months. That means such businesses would face an existential crisis if they record no sales revenue for half a year.<sup>25</sup> If the pandemic still lingers, and the government is still forced to control the movement of the people with their policies, then maybe SMEs will suffer great impacts and losses in the days ahead.

As customers were either compelled to exercise or willingly practiced social isolation, lockdowns and other containment measures have contributed to a disrupted supply and declined in demand. Despite an unparalleled degree of policy support to avoid bankruptcies and job losses, because of collapsed sales and cash flow strains, businesses continue to face extreme liquidity constraints. Despite aggressive fiscal and monetary support from policy-makers in ensuring the survival of firms and maintaining jobs, Japanese businesses were also seriously affected by the COVID 19 circumstances. The situation is especially dire for small and medium-sized enterprises (small and medium-sized enterprises, hereafter), which account for almost 70% of Japan's total

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<sup>22</sup> Government Responses on the Coronavirus Disease 2019, *Prime Minister of Japan and His Cabinet*, 1 July, 2020, available at: [http://japan.kantei.go.jp/ongoingtopics/\\_00013.html](http://japan.kantei.go.jp/ongoingtopics/_00013.html), accessed on 28 March, 2021.

<sup>23</sup> Ai Tashiro, and Rajib Shaw, "COVID-19 Pandemic Response in Japan: What is Behind Flattening of the Curve?" *Sustainability*, Vol. 12, No. 3, 2020, pp. 1-9.

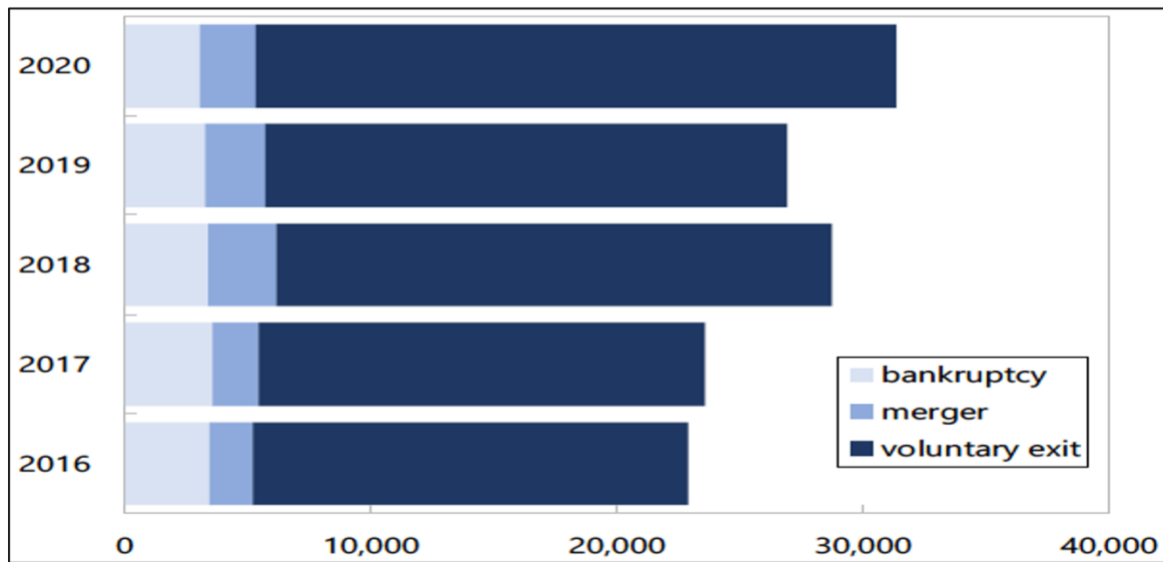
<sup>24</sup> Yuta Koga, Japan's Smaller Companies Prove More Resilient to COVID-19, *Nikkei Asia*, 26 August, 2020, available at: <https://asia.nikkei.com/Spotlight/Coronavirus/Japan-s-smaller-companies-prove-more-resilient-to-COVID-19>, accessed on 28 March, 2021.

<sup>25</sup> Ibid

jobs, which are highly concentrated in sectors involving high levels of human interaction such as retail, tourism and accommodation and are therefore most vulnerable to reduced mobility.

The overall number of business exits in this pandemic has risen. During the pandemic, the combined number of companies exits (as described from January to May 2020 as total company exits) increased by 16 per cent over the same period in the last year. A sharp rise in volunteer exits contributes to the increased number of company leaves. In contrast, the number of business exits due to bankruptcy decreased in comparison with that of last year and so up until 2020 has not been showing a rise in bankruptcy.

**Figure 1: Pattern for Exit Before and After COVID-19**



Source: 2019 White Paper on Small and Medium Enterprises in Japan

From Figure 1 this can conclude that between January and May last year, more than 30,000 Japanese companies left the market. This is about 16% higher than the total number of companies exits during the same period in 2019 (27,000 firm exits). This large increase in the total number of firm exits was driven by voluntary exits, which increased by 20% percent annually from 21000 firms in 2019 to 26,013 firms in 2020. So far, the total number of companies exits due to bankruptcies in 2020 has decreased by 8 percent annually from 3,304 firms in the last year from January to May to 3,038 firms in the same period last year.

## IMPLICATIONS OF THE STRATEGY

The initial stage of the COVID-19 shock was affected by the rise of the total number of business exits, while the total number of bankruptcies and fusions decreased in contrast to the previous year. Voluntary exits mainly took place for SMEs led by senior CEOs who had not secured a successor in the company. Long-term losses to employment, investment and efficiency are an unforeseen effect of voluntary companies leaving, when the business is profitable. In this respect, given that the economic situation is going from the initial phase of acute shocks to a phase of recovery, policy

support should contribute to business viability and solvency<sup>26</sup>. Unwilling exits from solvent companies should be avoided, because chronic support for insolvent companies could lead to the return and moral hazard of zombie companies. Political efforts can also continue to help discourage voluntary exits of solvent companies. Policies to promote corporate succession — including raising awareness of the importance of this topic and promoting non-family succession — should continue, particularly during these challenging economic times.

## GOVERNMENT RESPONSE

How does government response to overcome the problem? Before we go through deep into it, first we need to learn the timeline of how the Japanese government overcame the problem of corona virus. Government takes quite a big measure for SME by using subsidy, Tax exemptions, tax reduction and referral of tax payment. The government introduced the biggest economic boost in April 2020 ever plans worth JPY 117 trillion, 6 trillion of which were used by JPY issue household and small business cash subsidies and JPY 26. Billions can be used to delay corporate and social tax payments Security. In addition, the government subsidized half the relocation fees.

**Table 1: Timeline of how the Japanese government overcame the problem of corona virus (Response to the Impact of COVID-19)**

13 Feb	The government announced 1 <sup>st</sup> COVID-19 emergency response package, key measures include home return support for Japanese travelers in abroad, strengthen of immigration control, and loan support for SMEs etc.
10 March	The government announced 2 <sup>nd</sup> COVID-19 emergency response package, key measures include expansion of hospital beds for infected patient, additional loan support for companies and strengthening employment support measures etc.
7 April	The government announced 3 <sup>rd</sup> emerging economic package to stimulate the economy. Total scale of the package is 117 trillion yen (1.1 trillion USD) and it is equivalent to 22 percent of the country's GDP. About ¾ of the budget was allocated to employment and business support, and the rest was allocated to healthcare system, consumption promotion campaign and public investment etc.
8 April	The government issued the declaration of a state of emergency until May 6 for 7 prefectures (Tokyo, Kanagawa, Chiba, Saitama, Osaka, Hyogo and Fukuoka) to prevent the spread of infections. And, The government decided to expand the declaration of a state of emergency nationwide in 16 April
14 May	The government lifted the state of emergency for 39 prefectures except for 8 prefectures
21 May	The government lifted the state of emergency for 3 prefectures (Osaka, Kyoto, and Hyogo)
25 May	The government lifted the state of emergency for 5 prefectures (Hokkaido, Saitama, Chiba, Tokyo and Kanagawa)
27 May	The government announced the additional economic stimulus package. Total scale of the package is 117 trillion yen (Same scale as the 3 <sup>rd</sup> emerging economic package). Key measures include establishment of rent fee support benefits for SMEs and provide subordinated loan for large companies etc.

Source: JBIC Japan Bank For International Cooperation". 2021. Jbic.Go.Jp. <https://www.jbic.go.jp/en/business-areas/covid-19.html>.

<sup>26</sup> Japan: Monthly Sales Growth of Small-To-Medium Companies During Coronavirus 2020, *Statista*, 2021. *Statista*, 16 February, 2021, available at: <https://www.statista.com/statistics/1103251/japan-impact-coronavirus-outbreak-sales-growth-small-to-medium-companies/>, accessed on 28 March, 2021.

Table 1 has shown that, the companies moved back to Japan and subsidized production facilities Jobs maintenance and remote job businesses. For businesses with revenue decreased by over 50%; Government exempted taxes and property taxes from their consumption, and they got cash grants. You will receive up to JPY for each company two million. Two million. The government of Tokyo has declared it has Tokyo ("TMG"). Subvention SMEs and non-profit organizations needed to close due to an emergency. An emergency near. Companies or associations with only one a subsidy of 500,000 JPY is available to operating base when businesses or multi-base organizations can get a subsidy from JPY 1,000,000. Friseurs and beauty shops were not included companies that needed to be closed but voluntarily close they'll earn a grant of JPY 150,000 for the company premises. The one-year tax reduction period for capital is applicable to SMEs teleworking investments and property taxes on certain property. This measure extends to all payments between 1<sup>st</sup> February and due dates 2020 and 31<sup>st</sup> January 2021, if the drop is 20%. At the same timeframe in the previous year, the taxpayer's income<sup>27</sup>.

## FINANCIAL ASSISTANCE MEASURES

The Japanese government has issued a cabinet decision entitled 'Emergency Economic Measures to Cope with COVID-19' which was issued on 7 April 2020 (amended on April 20)<sup>28</sup> in response to the challenges faced by SMEs during the pandemic. The cabinet decision has prompted various government authorities and governmental or quasi-governmental financial organizations to offer financing support and other temporary assistants in order to help Japanese businesses survive the loss caused by COVID-19 and at the same time aid the Japanese economy during the pandemic and post-pandemic<sup>29</sup>.

As a policy body owned by the Japanese government, Japan Finance Corporation (JFC), is tasked with addressing the financial needs of small and medium-sized enterprises (SME), small enterprises and business operators based on agriculture, forestry and fisheries, with the short supply of financing available from private financial institutions<sup>30</sup>. In regards to the fact that SMEs and small businesses are especially vulnerable to the shock of COVID-19, JFC offers them a number of special loan programs as listed below:

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<sup>27</sup> Shuji Uchikawa, Small and Medium Enterprises in Japan: Surviving the Long-Term Recession, *ADB Working Paper Series*, No. 169, October 2009, available at: <https://www.adb.org/sites/default/files/publication/156024/adb-wp169.pdf>, accessed on 28 March, 2021.

<sup>28</sup> Government of Japan, Emergency Economic Measures to Cope with COVID-19, Cabinet Decision on April 7, 2020, Cabinet Office, 20 April, 2020, available at: [https://www5.cao.go.jp/keizai1/keizaitaisaku/2020/20200420\\_economic\\_measures.pdf](https://www5.cao.go.jp/keizai1/keizaitaisaku/2020/20200420_economic_measures.pdf), accessed on 28 March, 2021.

<sup>29</sup> Ibid

<sup>30</sup> Corporation Info, *Japan Finance Corporation*, available at: <https://www.jfc.go.jp/n/english/>, accessed on 28 March, 2021.



### *COVID-19 Special Loan*<sup>31</sup>

**Eligibility criteria:** COVID-19 Special Loan can be grant by JFC to any SME or small businesses that is temporarily deteriorating due to COVID-19 and meets any of the following requirements:

- a) The monthly income decreased by 5 percent or more, compare to the corresponding month of the previous year or the year before the previous year; or
- b) If the business only had been running for more than three months and less than 13 month-period or the comparison with the previous year (or the year before the previous year) is not significant – the monthly income has decreased by 5 percent or more compared to either of the following:
  - i. The average monthly revenue in the past three months (including the most recent month);
  - ii. Its revenue in December 2019; or
  - iii. The average monthly revenue over the period from October 2019 to December 2019.

**Maximum amount:** the maximum amount of a loan is 300 million yen (approx. USD2.8 million) for SMEs and 60 million yen (approx. USD561,000) for other smaller business operators.

**Low interest rate:** the same rate of interest applies to all SMEs, irrespective of their ability to repay. The interest rate is set at the applicable base rate of minus 0.9 percent for the first three years, after which it will be the base rate.

Other conditions: the proceeds of the loan which be used for the operational costs of the borrower or for the capital expenditure of the borrower's company. No security is required from the borrower. The repayment of the principal is not needed for periods up to the first five years. The term for the loan is up to 20 years (in case of the loan for capital expenditure) or 15 years (in case of loan for the operational cost).

**Interest subsidy:** the interest subsidy program of JFC is applicable for a SME with an aggregate subsidy amount of up to 100 million yen (approx. USD935,000) that can effectively achieve zero-interest loans.

### *COVID-19 Managerial Improvement Fund Loan*<sup>32</sup>

**Eligibility criteria:** The COVID-19 Managerial Improvement Fund Loan is available to any small business if, as a result of the COVID-19 pandemic, its monthly income has decreased by 5 percent or more compared to the corresponding month of the previous year or the year before the previous year.

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<sup>31</sup> Lionel Vincent, COVID-19: Japanese Supports for Shrinking Business Activities and Employment, *CCI France Japon*, 30 March, 2020, available at: <https://www.ccifj.or.jp/actus/n/news/covid-19-japanese-supports-for-shrinking-business-activities-and-employment.html> , accessed on 28 March, 2021.

<sup>32</sup> Jun Usami, Shusuke Fukunaga, Hiroshi Hara, Keisuke Nishimura, et al., COVID-19: Japanese Government Financial Assistance Measure, *White & Case*, 7 May, 2020, available at: <https://www.whitecase.com/publications/alert/covid-19-japanese-government-financial-assistance-measures>, accessed on 28 March, 2021.

**Maximum amount:** in addition to the ordinary managerial improvement fund loan that JFC may provide to those who have been advised by the Chambers of Commerce and Industry or other regional commercial advisory bodies, a loan facility of up to 10 million yen (approx. USD93,000) may be provided by JFC to an eligible small businesses.

**Low interest rate:** the interest rate is set at the applicable base rate of minus 0.9 percent for the first three years, after which it will be the base rate.

**Other conditions:** the loan proceeds may be used for the operational costs or capital expenditure of the borrower. No security or guarantee from the borrower is required. No principal repayment is required for the first three years (in case of the loan for operational costs) or four years (in case of the loan for capital expenditure).

**Interest subsidy:** The interest subsidy program of JFC (together with COVID-19 Special Loan, Environmental Health Industry-Specific COVID-19 Special Loan and Environmental Health Industry-Specific COVID-19 Managerial Improvement Fund Loan) is applicable in an aggregate grant amount of up to 30 million yen (approx. USD280,000) for a small business that can effectively achieve zero-interest loan.

### *Environmental Health Industry-Specific COVID-19 Special Loan<sup>33</sup>*

**Eligibility criteria:** Any SME or small businesses in the environmental health industry is entitled to Environmental health Industry-Specific COVID-19 Special Loan if it meets the eligibility criteria for the COVID-19 Special Loan.

**Maximum amount:** SMEs and small businesses in the environmental health industry may be provided with an additional loan facility of up to 60 million yen (approx. USD561,000).

**Low interest rate:** The same interest rate applies to all small and medium-sized enterprises, regardless of their ability to repay. The interest rate is set at the applicable base rate of minus 0.9% for the first three years, after which it will be the base rate.

**Other conditions:** the proceeds of the loan which be used for the operational costs of the borrower or for the capital expenditure of the borrower's company. No security is required from the borrower. The repayment of the principal is not needed for periods up to the first five years. The term for the loan is up to 20 years (in case of the loan for capital expenditure) or 15 years (in case of loan for the operational cost).

**Interest subsidy:** the interest subsidy program of JFC is applicable for a SME with an aggregate subsidy amount of up to 100 million yen (approx. USD935,000) that can effectively achieve zero-interest loans.

### *Environmental Health Industry-Specific COVID-19 Managerial Improvement Fund Loan<sup>34</sup>*

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<sup>33</sup> Ibid.

<sup>34</sup> Jun Usami, Shusuke Fukunaga, Hiroshi Hara, Keisuke Nishimura, et al., COVID-19: Japanese Government Financial Assistance Measure, *White & Case*, 7 May, 2020, available at:

**Eligibility criteria:** Any small businesses in environmental health sector which its monthly income has dropped by 5 percent or more compared to the corresponding month in the previous year or year before the previous year.

**Maximum amount:** JFC may provide an additional loan facility of up to 10 million yen (approx. USD93,000) to eligible small businesses in the environmental health sector that have been advised by regional environmental health associations.

**Low interest rate:** the interest rate is set at the applicable rate of minus 0.9 percent for the first three years.

**Other conditions:** the loan proceeds may be used for the operational costs or capital expenditure of the borrower. No security or guarantee from the borrower is required. No principal repayment is required for the first three years (in case of the loan for operational costs) or four years (in case of the loan for capital expenditure).

**Interest subsidy:** the interest subsidy program of JFC is applicable for a SME with an aggregate subsidy amount of up to 100 million yen (approx. USD935,000) that can effectively achieve zero-interest loans.

### *Hygienic Environment Change Special Loan*<sup>35</sup>

**Eligibility criteria:** The Hygienic Environment Change Special Loan can be provided by JFC to any hotel, restaurant or cafe business enterprise if (i) it is in financial difficulty due to the deterioration of business conditions caused by the COVID-19 pandemic, and (ii) it meets both of the following requirements:

- a) its monthly revenue has decreased by 10% or more in the most recent month compared to the corresponding month of the previous year or year preceding the previous year and is likely to decrease further in the future; and
- b) it is expected to rebound from the downturn and, in the medium to long term, improve its market situation.

**Maximum amount:** An additional loan facility of up to 10 million yen (approx. USD93,000) and 30 million yen (approx. USD280,000) for hotel businesses may be provided.

**Interest rate:** The interest rate is based on the period of the term of the loan and the security offered by the borrower. If the applicant is a member of a certain accredited environmental health group, the base interest rate can be lowered by 0.9 percent.

**Other conditions:** Loan funds should be used at the operational expense of the borrower. The length of the loan is up to seven years, and no principal repayment is needed for a period of the first two years.

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<https://www.whitecase.com/publications/alert/covid-19-japanese-government-financial-assistance-measures>, accessed on 28 March, 2021.

<sup>35</sup> Loan Systems, *Japan Finance Corporation*, available at: <https://www.jfc.go.jp/n/finance/search/index.html>, accessed on 28 March, 2021.

### *Safety Net Loan*<sup>36</sup>

**Eligibility criteria:** JFC can grant a safety net loan to any small or medium-sized enterprise if it is suffering or is likely to suffer a temporary worsening of its business condition. The eligibility criteria for the Safety Net Loan have been loosened in the light of the COVID-19 crisis so that financial aid can be provided to SMEs and small businesses that are expected to be in financial stress without needing to provide any numerical proof, such as a decrease in income.

**Maximum amount:** The maximum amount of Safety Net Loan for an SME is 720 million yen.

**Other conditions:** The proceeds from the loan can be used for the operational costs or capital expenditure of the borrower. The interest rate is calculated on the basis of the applicable base rate and the variable according to the terms of the loan, such as the duration of the loan and the security. The length of the loan does not exceed 15 years in the case of the capital expenditure loan, or eight years in the case of the operating expense loan. For the first three years, non-principal repayment is necessary.

### *Interest Subsidy Program*

**Eligibility criteria:** Interest subsidies may be given to any SME if:

- a) It has used one or more of the above applicable JFC lending schemes or the Crisis Response Loan of SCB/DBJ
- b) Its revenue has fallen by 20% or more (or 15% or more in the case of smaller businesses) due to the outbreak of COVID-19.

**Maximum amount:** for a small business, an aggregate subsidy amount of up to 30 million yen (approx. USD280,000) and for a SME of 100 million yen (approx. USD935,000) for the first three years from the date of drawdown of the loan.

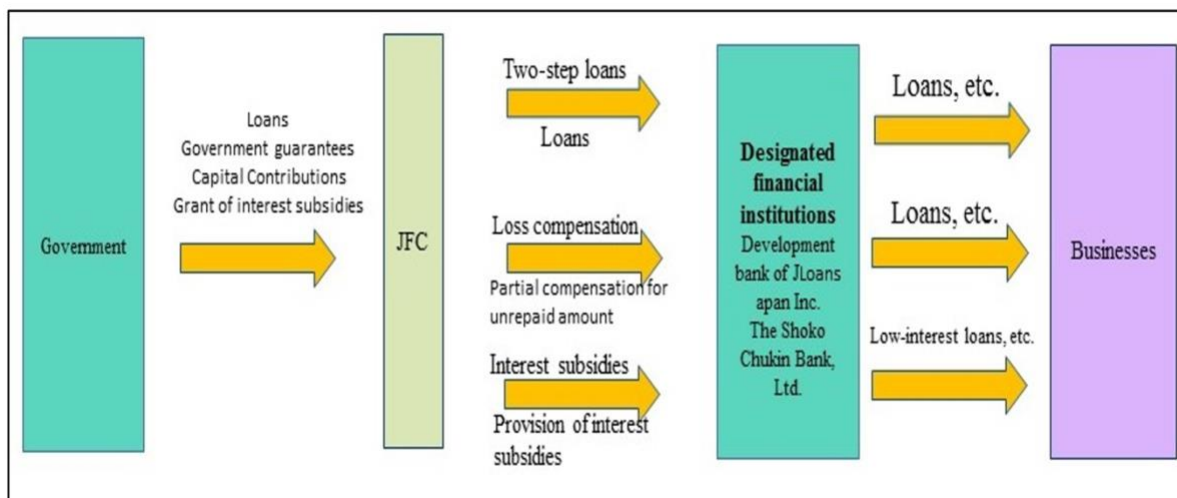
**Aim:** The other governmental financial assistance may be effectively obtained without interest. In order to help borrowers to make better use of this program, JFC is also able to request refinancing in relation to existing loans under the applicable lending scheme<sup>37</sup>.

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<sup>36</sup> Loan Systems, *Japan Finance Corporation*, available at: <https://www.jfc.go.jp/n/finance/search/index.html>, accessed on 28 March, 2021.

<sup>37</sup> Jun Usami, Shusuke Fukunaga, Hiroshi Hara, Keisuke Nishimura, et al., COVID-19: Japanese Government Financial Assistance Measure, *White& Case*, 7 May, 2020, available at: <https://www.whitecase.com/publications/alert/covid-19-japanese-government-financial-assistance-measures>, accessed on 28 March, 2021.

**Table 2: Overview of Operations to Facilitate Crisis Responses**



Source: Japan Finance Corporation<sup>34</sup>

JFC also supported the funding provided by Development Bank of Japan (DBJ) and The Shoko Chukin Bank, Ltd. (SCB) for mid-to-large sized companies (including large corporations) through their respective Crisis Response Operations<sup>38</sup>. During March 2020, DBJ reportedly provided loans of up to 2.5 billion yen (approx. USD23 million) to four Japanese companies under the Crisis Response Operations<sup>39</sup>. The financing aid granted by JFC to the Designated Financial Institutions of DBJ and SCB shall be carried out in the following three ways<sup>40</sup>: (i) loans (two-step loans) through which the Designated Financial Institutions on-lend JFC’s loan proceeds to the borrower corporations; (ii) partial risk complementation (loss compensation transaction) through which JFC will cover losses suffered by the Designated Financial Institutions in exchange for the premium charged; and (iii) interest subsidies whereby JFC essentially pays to the Designated Financial Institutions the balance (in whole or in part) of the interest charged by the borrower in respect of the loan made to it by the Designated Financial Institutions<sup>41</sup>.

### *Credit Guarantee Programs by CGCs*

Credit Guarantee Corporations (CGCs) are public institutions which support small and medium-sized enterprises (SMEs) by acting as guarantors to facilitate their borrowing from commercial banks and other private financial institutions. At the request of a SME borrower, CGC provides the lender's financial institution(s) with a credit guarantee if the borrower wants to borrow funds

<sup>38</sup> Crisis Response Operations, *Development Bank of Japan*, available at: <https://www.dbj.jp/en/service/finance/crisis/>, accessed on 28 March, 2021.

<sup>39</sup> Corporation Info, *Japan Finance Corporation*, available at: <https://www.jfc.go.jp/n/english/>, accessed on 28 March, 2021.

<sup>40</sup> Ibid.

<sup>41</sup> Crisis Response Operations, *Development Bank of Japan*, available at: <https://www.dbj.jp/en/service/finance/crisis/>, accessed on 28 March, 2021.

from them<sup>42</sup>. The provision of the guarantee is subject to due diligence on the credit and the guarantee payments are payable to CGC by the SME borrower. Under the general guarantee program of CGC, a covered amount of up to 280 million yen (approx. USD2.6 million) per company can be issued by CGC<sup>43</sup>. In addition, as part of the government's response to the COVID-19 crisis, the other three CGC guarantee programs will, as outlined below, be available to SMEs<sup>44</sup>. These guarantee programs can be further assisted by a subsidy or exemption from the guarantee fee.

**Table 3: Credit Guarantee Program by CGCC**

1. Safety Net Guarantee No.5 <sup>42</sup>	<p><b>Criteria:</b> SME falling under any of the specified business types (e.g.: manufacturing industry including construction industry, transport industry &amp; real estate industry; wholesale industry; retail, restaurant businesses; service industry; corporation mainly medical businesses) may apply for the provision of Safety Guarantee No.5 if their revenue has decreased by 5 percent or more in the last three months compared to the corresponding span of the preceding year.</p> <p><b>Maximum guaranteed amount:</b> 280 million yen (approximately USD2.6 million) – to be shared with Safety Guarantee No.4.</p> <p><b>Percentage covered:</b> 80 percent of the principal amount of the commercial borrowing.</p>
2. Safety Net Guarantee No.4 <sup>43</sup>	<p><b>Criteria:</b> SMEs located all over the country are eligible to apply for the provision of Safety Net Guarantee No. 4 if their income has decreased by 20 percent or more in the last month compared to the corresponding month of the year before and their income is projected to decrease by 20 percent or more in the next three months (including the next two months) compared to the year before.</p> <p><b>Maximum guaranteed amount:</b> 280 million yen (approximately USD2.6 million) – to be shared with Safety Net Guarantee No.5</p> <p><b>Percentage covered:</b> 100% of the principal amount of the commercial borrowing.</p>
3. Crisis-related Guarantee <sup>44</sup>	<p><b>Criteria:</b> SMEs involved in almost all businesses and located anywhere in Japan eligible to apply for Crisis-related Guarantee if their income has decreased by 15 percent or more in the most recent month compared to the corresponding month of the year before and their income is projected to decrease by 15 percent or more in the three months covering the next two months compared to the corresponding period of the year before.</p> <p><b>Maximum guaranteed amount:</b> 280 million yen (approximately USD2.6 million) – in addition to the guaranteed amount under Safety Net Guarantee No.4 and/or Safety Net Guarantee No. 5.</p> <p><b>Percentage covered:</b> 100% of the principal amount of the commercial borrowing.</p>

**Source:** Cabinet Decision on April 7, 2020.

[https://www5.cao.go.jp/keizai1/keizaitaisaku/2020/20200420\\_economic\\_measures.pdf](https://www5.cao.go.jp/keizai1/keizaitaisaku/2020/20200420_economic_measures.pdf)

<sup>42</sup> Key Facts on SME Financing in Japan, OECD iLibrary, available at: <https://www.oecd-ilibrary.org/sites/5989eb3a-en/index.html?itemId=/content/component/5989eb3a-en>, assess on January 12, 2021.

<sup>43</sup> Jun Usami, Shusuke Fukunaga, Hiroshi Hara, Keisuke Nishimura, et al., COVID-19: Japanese Government Financial Assistance Measure, *White & Case*, 7 May, 2020, available at: <https://www.whitecase.com/publications/alert/covid-19-japanese-government-financial-assistance-measures>, accessed on 28 March, 2021.

<sup>44</sup> Jun Usami, Shusuke Fukunaga, Hiroshi Hara, Keisuke Nishimura, et al., COVID-19: Japanese Government Financial Assistance Measure, *White & Case*, 7 May, 2020, available at: <https://www.whitecase.com/publications/alert/covid-19-japanese-government-financial-assistance-measures>, accessed on 28 March, 2021.

## *Grant for Business Continuity*

The Ministry of Economy, Trade and Industry offer Grant for Business Continuity to local small businesses seriously impacted by the COVID-19 outbreak, in order to support financially distressed MMEs more directly<sup>45</sup>.

This grant is open for SMEs only that fit all the criteria stated: (a) the monthly income has decreased by 50 percent or more compared to the corresponding month of the year before due to COVID-19; (b) the business had been running since 2019 or before and plans to continue; and (c) (for corporation) either the capital amount is less than 1 billion yen or the number of its permanent workers is less than or equal to 2,000. A corporation may receive a maximum amount of the grant is 2 million yen or approximately USD19,000 million<sup>46</sup>.

## **CONCLUSION AND RECOMMENDATIONS**

The coronavirus disease (COVID-19) pandemic has badly hurt small and medium-sized enterprises (SMEs), which are considered the backbone of many economies. Restrictions on transport and borders, social distancing and lockdowns have disrupted supply chains, decreased market demand and reduced cash flow. Consequently, small businesses are unable to pay store rent, salaries of employees, vendors, and creditors, creating a spiraling effect on households and the economy. Governments now busy making a bounce-back plan after the loss during the pandemic. For a better bounce-back plan, policymakers have given some suggestions which should be considered not only by Japan but from governments all around the world.

Firstly, in the bounce-back plan, the private sector must play a role<sup>47</sup>. Companies need to assist their government with how the "new normal" will take place. Standard protocols conducive to market practices must be suggested by them.

Second, the crisis should further intensify the digital transformation of nations and the e-commerce agenda for the flow of global trade<sup>48</sup>. The Asian Development Bank extended loans prior to the pandemic to help developing member countries increase their financial inclusion. As a result of the crisis, its assistance has been updated to get more SMEs to use digital payments. Countries must make it possible for global financial technology companies to operate and promote innovation. Governments may also connect payment providers to companies and enable more small businesses to link to online platforms to stimulate trade and economic activity.

Third, promote the development of corridors for trade<sup>49</sup>. As countries steadily loosen their trade and border controls, the "new normal" would lead to greater intra-regional trade. Governments must help promote exports, improve internet connectivity and connectivity for shipping. Last but not least, the policymakers suggest going digital to increase productivity<sup>50</sup>. The

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<sup>45</sup> Measures for Supporting SMEs Affected by Novel Coronavirus Disease to be Taken, Ministry of Economy of Japan, Trade and Industry, [https://www.meti.go.jp/english/press/2020/0408\\_003.html](https://www.meti.go.jp/english/press/2020/0408_003.html), accessed on 28 March, 2021.

<sup>46</sup> METI Subsidy for SME to Sustain Business through COVID-19 Hardship, *Anshin Immigration and Social Security*, available at: <https://en.an-japan.com/services/topics/mhlw-subsidy-support/meti-subsidy-sustain/>, accessed on 28 March, 2021.

<sup>47</sup> Paul Vadenberg, Bouncing Back Support to SMEs for COVID-19 recovery, *Asian Development Bank*, 8 July, 2020 available at: <https://events.development.asia/materials/20200708/bouncing-back-support-smes-covid-19-recovery>, accessed on 28 March, 2021.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

pandemic may have shrunk the demand on the international market for some products. Sustaining demand for goods and generating new demand, as well as new markets, is the challenge ahead. Important processes including trade registration, inspections, screening, and payments can be accelerated with digitalization.

SMEs and smaller businesses are susceptible to the external shock caused by the outbreak of COVID-19. Several Japanese governmental and quasi-governmental authorities and financial institutions have launched a range of direct and indirect financing support and other temporary relief measures to ensure the business continuity of companies in Japan that are in serious need of financial assistance.

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