

# Overview of Revitalization Support for SMEs in Japan



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## A. Introduction

99.7% of companies in Japan are small and medium enterprises (“SMEs”).<sup>1</sup> In 2003, the Small and Medium Enterprise Agency of Japan’s Ministry of Economy, Trade and Industry (“METI”) established a public organization called the “Small and Medium Enterprise Revitalization Council” (the “Council”) to help revitalize SMEs.

In recent years, Japanese SMEs have been severely affected by Covid-19, making it more essential that they be revitalized through the efforts of the Council. This article provides an overview of the workout options available to Japanese SMEs.<sup>2</sup>

## B. Consultation Services

The Council provides a wide range of advisory services to SMEs concerning all stages of their business, and works with financial institutions, private experts, and various support organizations.

The Council is staffed by a project manager and several assistant managers. Its staff members come from local banks and government financial institutions, and include

lawyers, certified public accountants (“CPAs”), certified tax accountants, SME management consultants, and other professionals.

For the consultation services, SME owners are asked to bring their financial statements, cash flow statements, etc., and the staff of the Council will consult with them for one to two hours. The key features of such consultation services are that they are free of charge and may be availed of as many times as needed, and the Council’s staff is required to maintain confidentiality.

## C. Revitalization Program

### (1) Overview

If the Council deems it appropriate for an SME that has availed of its consultation services, the Council will initiate steps to provide specific rehabilitation support after obtaining the consent of the SME and considering the objectives of the main financial institution and other relevant parties. The benefits of receiving rehabilitation assistance from the Council include: (a) financial adjustment assistance support from the Council as a fair and neutral party in the rehabilitation assistance process, and (b) partial subsidization of the costs of expert consultants appointed by the Council in the preparation

1. These companies are considered SMEs: (a) for the manufacturing industry, companies with a capital of 300 million yen or less and 300 employees or less; (b) for the wholesale business, companies with a capital of 100 million yen or less and 100 employees or less; (c) for the service industry, companies with a capital of 50 million yen or less and 100 or less employees on a regular basis; and (d) for the retail business, companies with a capital of 50 million yen or less and 50 or less employees on a regular basis.

2. The author was on secondment to the Tokyo SMEs Revitalization Support Council from September 2018 to June 2021.



of the rehabilitation plan.

The plan prepared under this rehabilitation program includes financial assistance. There are various methods of providing financial assistance to the SME, including debt waivers for part of the loans, refinancing into capital loans (so-called debt-debt swap), and rescheduling. The main methods are (a) debt waivers through company splits or business transfers, and (b) rescheduling.

For each financial assistance program, the Council selects outside experts (CPAs, SME management consultants and lawyers). The CPAs and SME management consultants will conduct a financial and business due diligence to understand the actual status of the company, and then assist in the preparation of a business plan and a rehabilitation plan for the company. This plan must include requests for financial assistance from financial institutions. The lawyers will also prepare an investigative report on the requirements of the rehabilitation plan. The costs of such external experts may be partially subsidized by the Council.

Consent must also be obtained from all the financial institutions to a rehabilitation plan that requires their financial support. The Council will assist in coordinating with such financial institutions by holding meetings with them as may be needed. The Council's staff consists of professionals from local regional banks and other financial institutions, as well as professional experts with extensive experience in coordinating with financial institutions and can often facilitate the process of coordinating with such financial institutions more smoothly.

### (2) Debt waivers through company splits or business transfers

Obtaining a debt waiver is the technique generally used when the damage to the company's business and finances is relatively significant. Through a business transfer or business split, a profitable business can be

separated and transferred to a new company, leaving a portion of the loans in the old company, which would then be liquidated. The loans remaining in the old company would be finally discharged through special liquidation or other means. To obtain debt waivers from financial institutions, the guarantee obligations of the individual managers must also be liquidated. Therefore, it is common to include in the rehabilitation plan a plan for liquidating the guarantee obligations based on the "Guidelines on Management Guarantee" and to obtain the approval of all of the relevant financial institutions.

### (3) Rescheduling

Rescheduling is the process of revising the repayment terms of a loan to match the actual profitability of a company. The general details of rescheduling are to first prepare a business plan and calculate the amount of annual free cash flow, and then allocate a certain percentage of that amount to repay each financial institution by prorating the balance of the loan. There are variations depending on the situation of the company. For example, if a company has barely enough working capital on hand, then the plan may be to make no principal repayments in the first year, or if essential capital investments are being planned, then the plan may take into account the funds needed for those investments.

## D. Conclusion

In Japan, the government is supporting the revitalization of SMEs through the Council and by subsidizing the cost of experts.

In addition, guidelines for the early closure of a business without bankruptcy took effect in April 2022, and a framework was established for applying for subsidies for such closure. Even now, the government is developing measures to support SMEs. SMEs may want to explore their workout options with the help of the Council as well as these other measures.