

The Role of Finance in Local Revitalization

By Seiji Jige



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Background to the Need for Local Revitalization

• Decline of Local Populations Expected to Accelerate

The Japanese population has been declining since 2011, but “locally” – outside of the three major metropolitan areas with the megacities Tokyo, Nagoya and Osaka at their core – some prefectures have seen their populations decline since the 1980s. According to “Local Financing Meets the Challenge of Declining Populations”, a May 2015 report by the Financial System and Bank Examination Department of the Bank of Japan, the Tokyo population in 2030 is forecast to be 12.96 million, a 7.4% increase from 12.06 million in 2000, but the forecast for the “local” population outside of the three metropolitan areas is 34.97 million, a decline of 16.6%, or approximately 7 million, from 2000.

The magnitude of the impact can be put into perspective by comparing it with the total population of the three prefectures (Toyama, Ishikawa and Fukui) of the Hokuriku region, currently at approximately 3 million. In Japan, where corporate headquarters and major universities are concentrated in Tokyo and other metropolitan areas, there has long been a tendency for high school graduates to leave their local communities to matriculate at major universities in the metropolitan areas and remain there when they graduate and go to work. The relocation of manufacturing capacity overseas in the 1990s also contributed to the decline of the resident population in the regions. Another major reason was that locally based primary industries such as agriculture, forestry and fisheries failed to generate new demand for jobs. Take the rise in the proportion of the elderly that accompanies the population decline into account as well, and we end up with serious concerns over the potential decline of regional economies.

• Establishment of the Communities, People and Jobs Creation Headquarters

The government set up an institutional framework to deal with this situation by establishing the Communities, People and Jobs Creation Headquarters in September 2014, and subsequently enacting the Communities, People and Jobs Creation Act. The purpose of local vitalization was determined to be the integrated promotion of efforts on three fronts: ① communities = “building local communities where rich, fulfilling lives can be enjoyed in security”, ② people = “securing human resources with great individuality and diversity as the pillars of local communities”, and ③ jobs = “creating a wide variety of

attractive job opportunities locally”. To achieve this, each prefecture and municipality has been tasked with grasping its own demographics and creating its own local version of the Comprehensive Strategy in FY2015. The national government is providing a common database to support the development of comprehensive strategies through the Regional Economy Society Analyzing System (RESAS), which can be used online, and encouraging deliberations in councils consisting of representatives from industry, administrative agencies, universities and colleges, financial institutions, and labor unions in creating them.

Specific Challenges for Local Communities & Orientation of Response

• Renewal of Local Infrastructure

Much of the public infrastructure in Japan was developed during the high growth era. As a result, the proportion of the infrastructure stock in Japan for which 50 years or more has passed since construction is 53% for roads, 60% for drainage pump stations and sluice gates, and 19% for sewage pipes, to give some examples from an estimate by the Ministry of Land, Infrastructure, Transport and Tourism. They are aging, which means that maintenance and renewal costs are expected to rise. This is a particularly serious problem for local communities that must renew public infrastructure while their populations and tax revenues are declining. The “compact city” concept and the introduction of private sector funds to public infrastructure investment (specifically, the acceleration of the introduction of PFI/PPP) are already being considered to meet this challenge. The role of finance including the construction of financing schemes that match the individual project characteristics is important for private finance initiatives (PFI) and public-private partnerships (PPP). However, the financial knowhow for PFI/PPP is concentrated in major banks and the Development Bank of Japan (DBJ). It is desirable for this knowhow to be broadly shared with local financial institutions.

• Local Industry Promotion

Industrial promotion by local governments used to focus on attracting manufacturing facilities. The limits of this strategy are becoming clear with the overseas relocation of manufacturing facilities and the advance of automated factories. This makes it important to develop local industries and to secure successors for

existing local businesses. As for ways to develop local industries, upgrading tourism in light of the growing number of inbound tourists in recent years, as well as efforts to give new life to agriculture, forestry and fisheries (primary industries) by integrating them with manufacturing (secondary industries) and service (tertiary industries) value chains into senary (primary (1) + secondary (2) + tertiary (3) = senary (6)) industries, and taking advantage of an aging society to develop healthcare and nursing care businesses are being considered among other things. The specifics are expected to be worked out through the process of elaborating the local versions of the Comprehensive Strategy. Equity-oriented risk money will be important for funding these business succession, industrial reorganization, and business startup efforts.

• Human Resource Development

The most important and serious challenge is securing the “human resources” to undertake the task of local development. Local government officials are constrained by their responsibilities as public servants, while ambitious people in the private sector are leaving for the urban areas that offer plenty of business opportunities.

Current State of Local Financial Institutions

• Types and Number of Local Financial Institutions

In Japan, local banks, which take the form of stock companies, the shinkin banks and credit unions that take the form of cooperatives, and agricultural cooperatives in the agricultural and forestry sectors are the local financial institutions responsible for finance. Of particular importance to local governments are the local banks (64 members of the Regional Banks Association of Japan and 41 members of the Second Association of Regional Banks) and shinkin banks (267). There are 47 prefectures and 1,718 municipalities (of which 790 are cities) in Japan. On average, there are two local banks per prefecture and a shinkin bank in each of the main cities. Local financial institutions are also an important source of jobs for people who have received higher education.

• Management Challenges Local Financial Institutions Face and Their Engagement in Local Revitalization

Local banks and shinkin banks have local operation bases. As industrial structures change and populations decline, their lending activities are on a downward trend, forcing them to maintain overall profits by managing their excess funds in the financial market on government bonds and the like. This means that reviving the local economies as their operating base and securing local lending opportunities are extremely important management challenges for these local banks and shinkin banks. Thus, they have a major stake in the success of local revitalization.

Developing the local economy also requires human resources to

take up the mantle. The executives and employees of the local financial institutions are currently being looked to in playing this role.

Major Banks & the Development Bank of Japan

• Major Banks

There are 10 major financial institutions including the three megabanks (Tokyo-Mitsubishi UFJ, Sumitomo Mitsui, and Mizuho), Resona, and Sumitomo Mitsui Trust. They all have business operations in metropolitan areas, and the megabanks in particular are globally-oriented. Thus, although they do have an interest in local revitalization, it has not become an important management issue for them.

• Development Bank of Japan

The DBJ was established in 1999 as a government financial institution through a merger between the Hokkaido-Tohoku Development Finance Public Corporation, whose purpose was local development in the Hokkaido and Tohoku regions, and the DBJ, whose purpose was local development in the rest of Japan in addition to industrial development nationwide including energy and transport. It was privatized in 2008 as a stock company as the first in a series of privatization projects. Although the government still retains 100% ownership of the DBJ, it issues its own bonds and borrows from local financial institutions. With a total of 15 trillion yen in funds, it is around 1/10th to 1/20th the size of the megabanks, and comparable to the other major banks. In contrast to the largely short-term orientation of ordinary banks, the DBJ provides long-term financing and risk money.

Although lending to big business and large-scale projects accounts for the bulk of lending, approximately half of the businesses with which it does business are local businesses, and it has 10 local branches, one in each major region. The local economy being one of its business domains, it set up its own headquarters in September 2014 to support local revitalization.

The Role of Finance in Local Revitalization

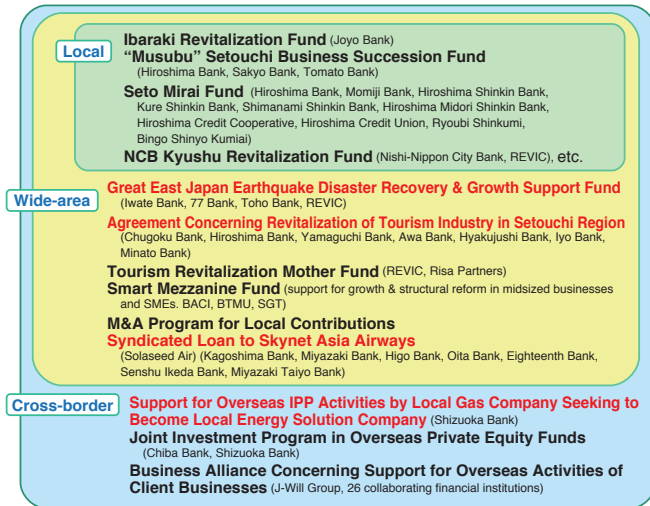
• Functions Expected from Finance in General

Finance has two roles, broadly speaking. One is the money bank function as the provider of funds, examining the feasibility of a variety of business plans, giving advice as the occasion warrants, and providing or making arrangements for a wide range of financing. The other is the knowledge bank function, supporting the plans of businesses and local governments by providing information and networks.

The following is an introduction to examples of efforts by function. For the reasons explained above, local banks and shinkin banks play the main role, while the DBJ, where I work, offers broad-based support for local revitalization mainly through cooperation with these banks.

CHART 1

Examples of collaboration between local banks & DBJ – to create “power to earn” (largely risk money-related)



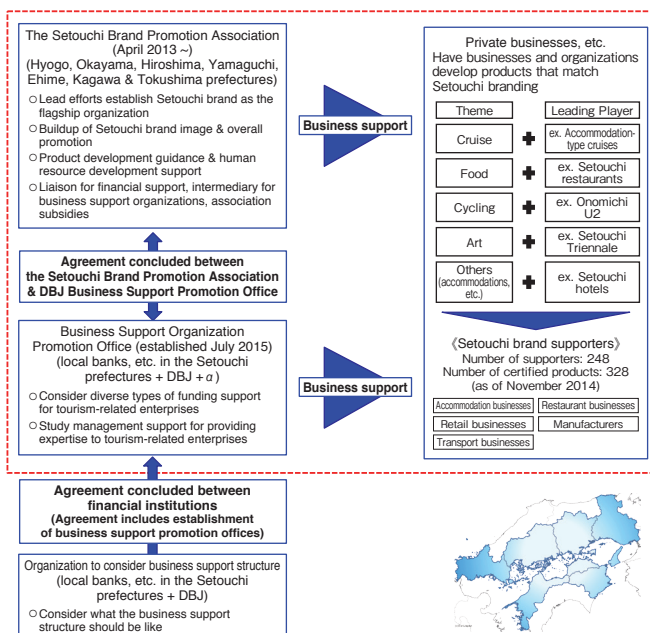
Source: Development Bank of Japan Inc. (DBJ)

• Specific Activities as Money Banks

The local banks are setting up a wide variety of funds for the purpose of smoothing the way for financial success at their client businesses, revitalizing local businesses, promoting tourism, and so on. In many of these cases, the funds are being established in

CHART 3

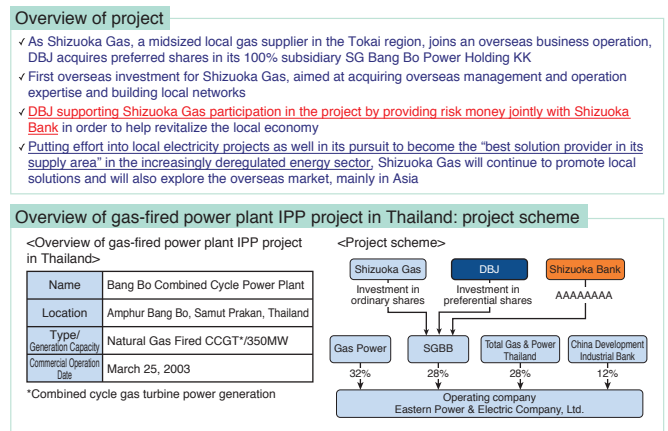
Example of DBJ-local bank undertaking – Setouchi brand promotion structure



Source: Development Bank of Japan Inc. (DBJ)

CHART 2

Example of DBJ-local bank undertaking – Shizuoka Gas joining IPP project in Thailand



Source: Development Bank of Japan Inc. (DBJ)

cooperation with the public-private sector fund Regional Economy Vitalization Corporation of Japan (REVIC) or the DBJ. **Chart 1** is an example of collaboration with the DBJ. **Chart 2** (Shizuoka Gas joining an IPP project in Thailand) is a case where a local business was helped with an injection of equity to grow by expanding into the Asian market. **Chart 3** shows an example of prefectures and local banks in wide-area collaboration as the seven Setouchi prefectures (Hyogo, Okayama, Hiroshima, Yamaguchi, Tokushima, Kagawa, and Ehime), the seven local banks based there and the DBJ collaborate to create the “Setouchi Brand” to be used jointly as the common brand for tourism and food products for business promotion. This is an example of the combination of money bank and knowledge bank functions.

• Specific Activities as Knowledge Banks

Many local financial institutions are cooperating with their local governments in creating local versions of the Comprehensive Strategy. In addition to cooperating with local governments individually, the DBJ also issues a wide variety of research reports useful to local revitalization, and hosts workshops on creating innovation locally in cooperation with the respective local finance bureaus of the Ministry of Finance, holds open classes for local governments and financial institutions on the basics of PFI/PPP to prepare for local infrastructure renewal, and supports the creation of destination management organizations (DMOs) to promote tourism.

• Results of Monitoring by the Government

The following efforts are introduced in the “Monitoring Survey Results regarding the State of Efforts regarding Local Vitalization: Notable Examples of Efforts by Financial Institutions Aimed at Local Vitalization” made public by the Communities, People and Jobs

Creation Headquarters Secretariat in December 2015 (https://www.kantei.go.jp/jp/singi/sousei/pdf/1512_research_kinyu.pdf).

(1) Support for Creating Strategies (four examples)

- Analysis of local industries using tax data and its use for supporting creation of the local versions of the Comprehensive Strategy <Hokuyo Bank>
- Encouraging cross-border collaboration between local governments based on the “Vitalizing Chiba” Strategic Plan <Chiba Bank>
- Workshops aimed at utilizing the Regional Economy Society Analyzing System (RESAS) <Tama Shinkin Bank>
- Making local economies visible <Development Bank of Japan>

(2) Local Innovation and Local Branding (six)

(i) Local innovation

- Public-private collaborative support for mid-sized businesses with potential for growth under the Shizuoka Prefecture Industrial Growth Strategy <Shizuoka Bank>
- Problem solving-oriented industry-government-financial institution collaboration that connects local small and medium enterprises and local universities <Awa Bank>
- Sponsoring the Nagasaki Urban Management Strategy Promotion Conference (The Nagasaki Summit) <The Eighteenth Bank>
- Product development that brings the technology of local small and medium enterprises together to move into new fields <Tokyo Higashi Shinkin Bank>

(ii) Local branding

- Local Vitalization Community Building Project by the Nishiwagamachi township <Kitakami Shinkin Bank>
- Discovery of local resources and support for new business startups through crowdfunding and other new financing tools <Hida Credit Union>

(3) Assisting Mid-sized and Small and Medium Enterprises (five)

- Matchmaking support aimed at a virtuous local circle of funds through the “Supplier Search Service” (reverse trade fair-purchasing conference) <Juroku Bank>
- Management improvement support through business feasibility assessments <Hiroshima Bank>
- One-stop support for outbound business (overseas export and/or investment) <Fukuoka Bank>
- Efforts under the “WIN-WIN Networking Operations” – consulting for developing new sales routes <Minami Nippon Bank>
- Business startup support in collaboration with promotion measures for permanent inbound relocation <Notokyouei Shinkin Bank, Japan Finance Corporation>

(4) Building Tourist Spots (two)

- Efforts aimed at broad-based revitalization of tourist spots by formulating a community-building model for tourist spots <Hachijuni Bank, REVIC>
- Building a local collaboration system to strengthen tourism-related industries* The “Setouchi” brand mentioned above <Chugoku

Bank, Hiroshima Bank, Yamaguchi Bank, Awa Bank, Hyakujushi Bank, Iyo Bank, Minato Bank, Development Bank of Japan>

(5) Turning Agriculture, Forestry and Fisheries into Growth Industries (two)

- Efforts through the NCB Kyushu Sesary Industry Support Fund <Nishi-Nippon City Bank, Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan>
- Generating local jobs through the development of a new industry (around olives) <Kagoshima Bank>

(6) Support for Permanent Inbound Relocation, Support for Self-Reliance by Handicapped People (two)

- Efforts to promote permanent inbound relocation through “reverse mortgage loans” <Joyo Bank>
- Government-private collaborative effort aimed at supporting self-reliance by handicapped people using their artistic talents
- “Yumeiku” Work Support Project <San-in Godo Bank>

(7) Community Development (four)

- Local vitalization thorough support for the “OGAL” Project (urban redevelopment project for the Shiwachuo Station area) <Tohoku Bank>
- Implementation of support for community building and businesses to support local communities <Seibu Shinkin Bank>
- Shopping district revitalization project from Osaka! connecting shinkin banks nationwide <Osaka City Shinkin Bank>
- Construction of a comprehensive local healthcare model utilizing healthcare funds <REVIC>

Conclusion

This must be the first time in Japanese history that the future of Japan is being considered in earnest at the local level by local people using a common set of data. Local banks and shinkin banks have very important roles to play in cooperating with the investigation of that future and project formation, as well as in providing the necessary funds. We look to the earnest engagement of the local financial institutions so that the plans are actually carried out as real projects. The DBJ will also support local revitalization with an emphasis on collaborating with the local financial institutions on the understanding that the next few years will be crucially important. **JS**

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