

# Major government backed financial support in Japan in relation to COVID 19 as of 9 April 2020

## Loans

Standard interest rate → 0.9% favorable interest → Interest free by subsidy

### Safety Net Loans

Standard interest rate loan

Safety Net Loans are available for small and medium sized enterprises whose performance has become or is expected to become temporarily worse due to social or economic changes, but which is expected to recover in the mid term. No specific quantitative requirements such as the amount of revenue decrease is required.

### New Coronavirus Infection Special Loans

#### Anti Crisis Loans

#### Small Business Management Improvement Loans under COVID 19

Companies may enjoy lower interest rates by 0.9 percentage points than standard interest rates for the first three years if revenue decreases by 5% or more.



### Special Interest Subsidy

Individuals or companies who borrow funds under the above New Coronavirus Infection Special Loans or Anti Crisis Loans may be eligible for an interest rate supplement under those loans if the borrower's revenue decreases.

## Credit Guarantee

### Safety Net Guarantee (“SN Guarantee”)

Up to JPY 280 million in addition to the general guarantee limitation.

**Type 4:** 100% guarantee. Depending upon regions, however, now all regions in Japan.

**Type 5:** 80% guarantee. Heavily impacted businesses only.

### Crisis Related Guarantee (“CR Guarantee”)

In addition to the Safety Net Guarantee, an additional JPY 280 million.

100 % guarantee for all industries (with some exceptions) in all regions in Japan.

General Guarantee (JPY 280 M)



SN Guarantee (JPY 280M)



CR Guarantee (JPY 280M)

### Exemption or reduction of guarantee fees or loan interest at the guaranteed loan

A subsidy for guarantee fees and interest rates is available for loans under SN Guarantee or CR Guarantee.

# 1. Introduction

## 1.1 Outline

The previous page shows major government backed financial support to small and medium enterprises facing difficulties in connection with COVID-19. Such loans are provided by the Japan Finance Corporation (<https://www.jfc.go.jp/n/english/>) or the Shoko Chukin Bank (<https://www.shokochukin.co.jp/english/>) and credit guarantees are provided by Credit Guarantee Associations located in each prefecture (<https://www.zenshinoren.or.jp/english/index.html>).

While it is possible that regional municipalities may provide different financial support, generally speaking, the budget of such municipality and its terms are more limited than those provided by the Japan Finance Corporation or Credit Guarantee Associations and therefore, it is advisable to consult with the Japan Finance Corporation or Credit Guarantee Associations. Please, however, note that the financial support is to be provided to small and medium sized enterprises and therefore, it is important to confirm that your business falls within the definition of a small and medium sized enterprise.

## 1.2 Small and Medium Sized Enterprises

Small and medium sized enterprises are defined as below depending upon the industry.

Manufacturing, construction, or transportation: (i) capital of JPY 300 million or less or (ii) 300 employees or fewer, however, if manufacturers make rubber products, excluding automobile or aircraft tires, tubes or industrial belt products, the applicable standard is that (i) capital of JPY 300 million or less or (ii) 900 employees or fewer.

Wholesale traders: (i) capital of JPY 100 million or less or (ii) 100 employees or fewer.

Retailers: (i) capital of JPY 50 million or less or (ii) 50 employees or fewer.

Service industries: (i) capital of JPY 50 million or less or (ii) 100 employees or fewer, however, for hotel or inn business operators, the applicable standard is (i) capital of JPY 50 million or less or (ii) 200 employees or fewer, and for software and IT service business operators, the standard is (i) capital of JPY 300 million or less or (ii) 300 employees or fewer.

If a subsidiary in Japan falls within any of the above categories but has a large parent company, it is not clear whether that subsidiary in Japan qualifies for financial support as a small and medium sized enterprise to be provided by the Japan Finance Corporation, Shoko Chukin Bank or Credit Guarantee Associations, however, as it seems that no information about the parent company is requested in many cases, it would be worthwhile consulting with these financial institutions.

### 1.3 General guidance

If revenue decreases by more than 20%, then you can consider applying for New Coronavirus Infection Special Loans and related subsidies (see 2.2 and 2.3 below) or the Type 4 Safety Net Guarantee (see 3.1.1 below) and Crisis Related Guarantee (see 3.2 below) and subsidies related to those guarantees (see 3.3 below).

If revenue decreases by more than 15% but less than 20%, then you can consider applying for the New Coronavirus Infection Special Loans (see 2.2 below) (and related subsidies if you are a small business operator, see 2.3 below) or the Type 5 Safety Net Guarantee (see 3.1.2 below) and Crisis Related Guarantee (see 3.2 below) and subsidies related to those guarantees (see 3.3 below).

If revenue decreases by more than 5% but less than 15%, then you can consider applying for the New Coronavirus Infection Special Loans (see 2.2 below) (and related subsidies if you are an individual business operator, see 2.3 below) or the Type 5 Safety Net Guarantee (see 3.1.2 below) and related subsidies (see 3.3 below).

If you cannot prove a decrease in your revenue but your business performance is affected, then you can consider applying for the Safety Net Loans (see 2.1 below).

However, as it is possible that different financial support may be available depending upon the individual condition of your business, it is advisable to consult with the Japan Finance Corporation, Shoko Chukin Bank, relevant Credit Guarantee Associations or the municipality relevant to your business.

## 2. Loans

### 2.1 Safety Net Loan

The Safety Net Loan is available for small and medium sized enterprises whose performance has become or is expected to become temporarily worse due to social or economic changes, but which is expected to recover in the mid term. No specific quantitative requirements such as the amount of revenue decrease are required.

**Interest rate:** Standard interest rate for small and medium sized enterprises is 1.11% and that for smaller daily life related businesses is 1.91%. However, these are standard rates as of 1st April in 2020 for five years loans and the rate will depend upon other conditions, such as the term and the security offered.

**Purpose:** Working capital or capex

**Deferred repayment period:** Maximum three years

**Term:** Not exceeding fifteen (15) years for capex loans and eight (8) years for working capital

**Maximum amount:** JPY720 million for small and medium sized enterprises and JPY 48 million for smaller daily life related businesses

## 2.2 New Coronavirus Infection Special Loans and Anti Crisis Loans

New Coronavirus Infection Special Loans are provided by the Japan Finance Corporation and Anti Crisis Loans are provided by the Shoko Chukin Bank to small and medium sized enterprises which do not perform well due to the coronavirus emergency and which satisfy with the following requirements.

- (i) The revenue for the latest one month is less than that of the corresponding month last year or two years ago by more than 5%; or
- (ii) If the business operator has conducted its business for more than three months but less than a year and a month, or if a simple revenue comparison does not make sense for some reason, such as increasing employment or having made a capital expenditure directly increasing revenue, a conversion of business or a merger, then the revenue amount for the latest one month is less than either of the following three figures by more than 5%:
  - (a) Average revenue for the latest three months including the latest one month;
  - (b) Revenue for December 2019; or
  - (c) Average revenue for October to December 2019.

**Interest rate:** A more favorable interest rate by 0.9 percentage points than the standard interest rate for the first three years

**Purpose:** Working capital or capex

**Deferred repayment period:** Maximum five years

**Term:** Not exceeding twenty (20) years for capex loans and fifteen (15) years for working capital

**Security:** Not required

**Maximum amount:** JPY300 million for small and medium sized enterprises and JPY 60 million for smaller daily life related businesses

For small business operators who are advised by management advisors in chambers of commerce, a more favorable interest rate may be available.

## 2.3 Special Interest Subsidy

Business operators who borrowed funds using the New Coronavirus Infection Special Loans from the Japan Finance Corporation or Anti Crisis Loans from the Shoko Chukin Bank are expected to be entitled to enjoy a Special Interest Subsidy to make those loans interest free if the borrowers are (i) individuals, (ii) small companies with a drop in revenue by more than 15%, or (iii) small and medium sized companies

with a drop in revenue by more than 20%. Here, small companies means companies (a) with five or fewer employees in wholesale, retail or service industries or (b) with twenty or fewer employees in manufacturing, construction, transportation or other industries.

This Special Interest Subsidy is available only if and after the supplemental budget for 2020 is approved in the National Diet of Japan. More details will be uploaded to the website of the Small and Medium Enterprise Agency once determined.

### **3. Credit Guarantee**

#### **3.1 Safety Net Guarantee**

##### **3.1.1 Type 4 Safety Net Guarantee**

The Type 4 Safety Net Guarantee is available in the regions where a wide range of industries are affected and all regions in Japan are currently covered by this Type 4 Safety Net Guarantee. The Type 4 Safety Net Guarantee covers 100% of the loan amount.

The Type 4 Safety Net Guarantee is available if (i) the business operator has continued to operate its business for more than a year in the designated region and (ii) revenue for the latest one month decreased by more than 20% compared with the corresponding month last year and revenue for three months, including the two months following the latest one month, is expected to decrease by more than 20% compared with the corresponding three months of last year.

The maximum guarantee amount is JPY 280 million for the Type 4 and Type 5 Safety Net Guarantee in total.

##### **3.1.2 Type 5 Safety Net Guarantee**

The Type 5 Safety Net Guarantee is available for business operators in industries which are heavily affected, and 587 types of industries are currently covered. The Type 5 Safety Net Guarantee covers 80% of the loan amount.

The Type 5 Safety Net Guarantee is available if (i) the business operator conducts business designated as a heavily affected business, (ii) revenue for the latest three months decreases by more than 5% compared with the corresponding three months last year and (iii) the mayor of the relevant municipality approves that these requirements are satisfied.

#### **3.2 Crisis Related Guarantee**

In addition to the above Safety Net Guarantee, an additional JPY 280 million Crisis Related Guarantee is available if (i) financing is necessary to normalize financial conditions and (ii) revenue for the latest one month decreases by more than 15% compared with the corresponding month last year and revenue for three months,

including the two months following the latest one month, is expected to decrease by more than 15% compared with the corresponding three months of last year.

### 3.3 Subsidy for guarantee fees and interest rates

Subsidies for guarantee fees and interest rates are expected to be available only if and after the supplemental budget for 2020 is approved in the National Diet of Japan. More details will be uploaded to the website of the Ministry of Economy, Trade and Industries once determined.

While the requirements may change, the currently announced outline of this subsidy is as follows; (i) small business individuals may enjoy interest free loans and guarantee fee free guarantees if revenue for the latest one month decreases by more than 5% compared with the corresponding month last year and (ii) small and medium sized enterprises may (a) be exempted from half of the guarantee fees if revenue for the latest one month decreases by more than 5% compared with the corresponding month last year and (b) enjoy interest free loans and guarantee fee free guarantees if revenue for the latest one month decreases by more than 15% compared with the corresponding month last year.

**Maximum amount:** JPY30 million

**Term of subsidy:** First three years

**Deferred repayment period:** Maximum five years

**Security:** Not required

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Should you have any questions concerning the contents of this memo, please do not hesitate to contact us.

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