An Educational Policy for Teaching Entrepreneurship to Pre-University Students

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The New Age and Enterprising Individuals

The New Age of economics has progressed far enough that we begin to see the profile of the future. The system is global in nature and driven by technology. Since technological change is so rapid, the old structures of production and distribution are breaking apart. The new micro unit is an institution (large and small) which must be adaptable and have characteristics that are more horizontal than vertical, more group interactive than individual, and more creative than repetitive.

In the United States the restructuring of business began in the 1980s and it brought about a tremendous amount of dislocation. But it also began to change the profile of the kinds of people who are most valuable to business organizations and the economy. Rapidly changing technology, along with the restructuring of business, created many new opportunities for economic gain. What became evident was within society there were individuals who were ready to take advantage of these opportunities they saw and to use new technologies to create new goods, services, and, sometimes, whole new industries. These individuals have been identified in the past, but their numbers and their influence in the economy seem to be taking on more prominence. Who are they? They are enterprising people, often referred to as entrepreneurs.

One of the most concise definitions of an enterprising person is contained in an OECD document *The Social and economic Integration of Young People* (Center for Education Research and Innovation, 1988):

> An enterprising individual has a positive, flexible, and adaptable disposition towards change, seeing it as normal, and as an opportunity rather than a problem. To see change in this way, an enterprising individual has a security

> borne of self-confidence, and is at ease when dealing with insecurity, risk, difficulty, and the unknown. An enterprising individual has a capacity to initiate creative ideas, develop them, either individually or in collaboration with others, and see them through. An enterprising individual is able, even anxious, to take responsibility, and is an effective communicator, negotiator, influencer, planner, and organizer. An enterprising individual is active, confident and purposeful, not passive, uncertain, and dependent. (p.33).

This definition seems equally appropriate for individuals who work within established business organizations as well as those who create a new business, product, or process. The entrepreneur would seem to be a subset of enterprising people. However, it is the entrepreneur who has been the focus of the search for the explanation of the dramatic changes in the United States economy over the past 25 years.

Entrepreneurs are identifiable in all economic systems and are not bounded by geography, stage of economic development, or political system. And yet there are differences in the numbers of entrepreneurs which societies create. For instance, in the United States, new businesses account for the vast number of new jobs being created while the large corporations are actually reducing employment. High technology firms seem to be born (as some die) on a daily basis as new opportunities emerge in a very complex but interrelated economy.

Although research on entrepreneurs reveals that many entrepreneurs come from families where entrepreneurship existed, it would appear birth alone does not insure successful enterprising behavior. Experience also contributes to making a successful enterprising person. A third facilitating or constraining element is the culture and its institutions. Some nations have cultures and institutions that are more entrepreneurship-friendly.

Education Challenge

If the above observations be true, is it possible for the educational system to influence the creation of enterprising people and among them, entrepreneurs? W. F. Whyte and R. R. Braun in an article in the *Columbia Journal of World Business* (Spring 1966) state that a cultural pattern consists of a set of learned behavior and beliefs that are widely shared in a given society. They identify the formative years as childhood and adolescence, the period when schools are an important part of the youth's experience. In fact, the authors state clearly that the child learns through his or her experience in the family, among friends and associations, and in school.

Society has placed a great deal of responsibility on schools for teaching and training children for their roles in society. One of the important roles is their economic role. Societies have relied on schools to prepare youth for employment. The kind of educational experience they have is to a large measure designed to be consistent with the requirements of the economy. But the economic institutions, like scientific-technical communities, are changing and changing rapidly. What the economy (businesses) need in the 21st century are individuals who are quite different from those they sought in the past. Business leaders are describing enterprising people (although not using the identifier) and the educational system is only slowly shifting toward helping in their development.

Education as an institution is lagging behind more dramatic changes in the rest of society. Because of this, new pressures are being applied for change in the educational systems around the world. Educational reform is now in the third decade in the United States.

Reform or change in the schools is possible but not easy. Whyte and Braun outlined a number of opportunities to convert from the older learning environments to one more attuned to what we are describing as experiences to develop enterprising youth. For instance, refocus on who our heroes are. Make the heroes the creative industrious types as opposed to kings, generals, and politicians. Rewrite the history books on the industrialization process, where in the United States the great innovators and wealth creators are described as the "robber barons." Relate the three R's to the applications in the world in which the students will be living and working. Do writing exercises that make students more knowledgeable of how enterprising people make a difference in society.

Perhaps one of the most helpful observations Whyte and Braun make in their article is

> We hear much discussion about how the content of the school curriculum can be brought more in line with modern day realities. While not denying the importance of content, we must emphasize that the way children are taught—the way they learn to learn—strongly influences the way they will use their minds in their approach to the problems of later life.

The key to this strategy is the teacher. Teachers provide the instruction, create the learning environment, motivate and evaluate students, and serve as role models. As we have stated, enterprising people are the product of many things, the least of which may be genetics. They are products of their environments: home, school, social, and work. The more encouragement these environments provide to enterprising behavior the greater the likelihood that a young person will develop an interest in, and propensity for such enterprising behavior—one of which may be entrepreneurship.

For teachers to be effective in helping to develop enterprising youth they must be given flexibility, time, sometimes money, but most importantly, support from society. The teachers, who will need to be enterprising in their behavior, will need an effective support network extending throughout the school and into the community.

Conclusion

Educators within our societies should become the advocates for change in their educational institutions. This change should be guided by the collective expertise of teachers and administrators but compatible with the economic, social, and political cultures of which education is an important component. These changes should incorporate the goal of higher achievement by the student populations in the academic realm and in the world of work into which they will enter in their future. Teachers can play a critically important role in both advocating and directing changes. They deliver education and are most familiar with the barriers that impede their accomplishing the mission of developing educated, adaptable, and enterprising individuals.

There are actions we can all take to help make the entrepreneurs of the future:

a. In addition to supporting the transition to an enterprising learning environment we should all promote and support an entrepreneurial culture.

b. Praise and honor the current as well as the past entrepreneurs.

c. Advocate entrepreneurship as a vocational choice which requires learning and experience but which has personal and financial rewards.

d. Focus on teacher training and education which is infused with enterprising content and techniques.

e. Encourage centers, professorships, and programs of entrepreneurship at the university level to use the knowledge, experience, and financial support they have to develop more curriculum materials for entrepreneurship at the pre-university level and provide assistance in their use by teachers.

f. Finally, set an example of an enterprising person and always take action when an opportunity arises in your work and community to help our youth become enterprising people.

Panel 4, 4:30 p.m.

An International Comparison of the Effects of Banking Deregulation and Restructuring on Small Business Lending

The session was moderated by Charles Ou, senior economist with the Office of Advocacy. The session consisted of an analysis of small business lending in three nations. A central theme of the three papers was the importance of collecting small business financial data—to better understand the financial issues confronting small enterprises, to assist policymakers in formulating policies, and to better evaluate the performance of assistance programs.

Stuart Fraser, of the Centre for Small and Medium-Sized Enterprises of the Warwick Business School, noted that a competitive economy needs to support start-ups and high-growth firms. To this end, a consortium of 19 public and private sector organizations, led by the Bank of England, commissioned Warwick Business School to carry out the U.K. Survey of Small and Medium-Sized Enterprise Finances (SMEF). The survey examined the availability of financing to small and medium-sized enterprises and their relationship

The banking panel consisted of (from left), Allan Riding, Arito Ono, Stuart Fraser, and Charles Ou.

Stuart Fraser, senior research fellow, Centre for Small and Medium-Sized Enterprises, Warwick Business School.

Arito Ono, senior economist, Mizuho Research Institute.

with lenders. In general, the survey report found that most small and medium-sized enterprises had not experienced problems with financing during the past three years. However, minority-owned businesses were more likely to experience rejection than similar white-owned businesses. The report also found that female-owned businesses paid higher loan margins than similar male-owned businesses. The supply of banking services to SMES was highly concentrated among four banks. Also, small and medium-sized enterprises were very unlikely to switch banks even though one-third were dissatisfied with bank charges. High-growth businesses, and those with a qualified financial manager, were significantly more likely to switch banks. The report found no evidence that

Allan Riding, professor, Carleton University.

Charles Ou, senior economist, Office of Advocacy.

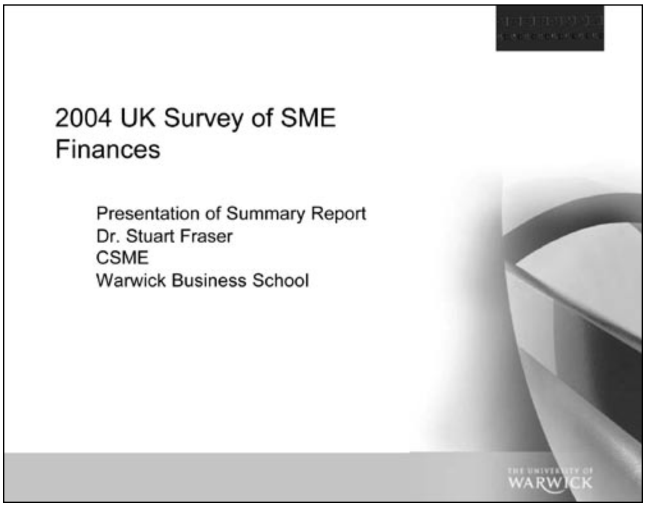
switching banks resulted in businesses' experiencing poorer access to finance or higher loan margins. The report is available from *www.wbs.ac.uk/go/sme0505*.

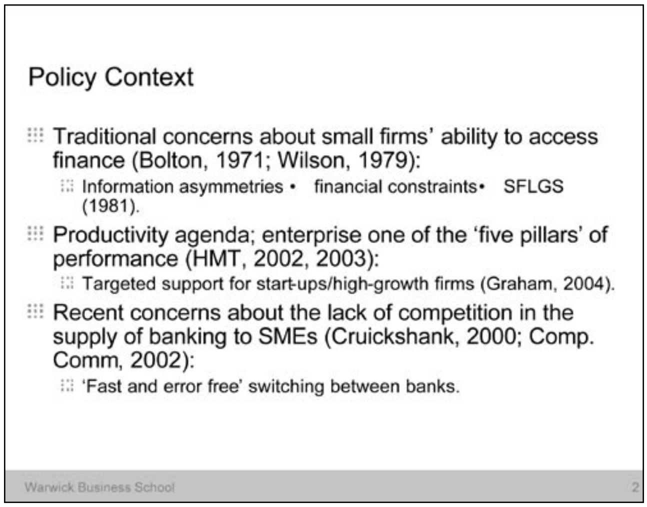
Allan Riding, of Carleton University, discussed the development of small business financing in Canada. Canada's banking system has a history of concentration: 80 percent of all loans to small enterprises are held by six institutions. Riding noted the concern over the impact of mergers and acquisitions on banking competition during the mid-1990s. However, several local and regional small business lending markets were found to be competitive because of participation by local lenders and by the entry of foreign banks. Two modes of intervention have been used: Canada's Business Development Bank and the Canadian Small Business Financing Act. In order to provide answers to questions related to the existence of "gaps" and the benefit and costs of government actions in SME financing markets, detailed statistics were collected by Statistics Canada, in partnership with Industry Canada and Finance Canada. Survey data collected since 2001 have been used to evaluate the effectiveness of financial assistance programs as well as continuing the assessment of the availability of financing to different groups of small borrowers for future program development.

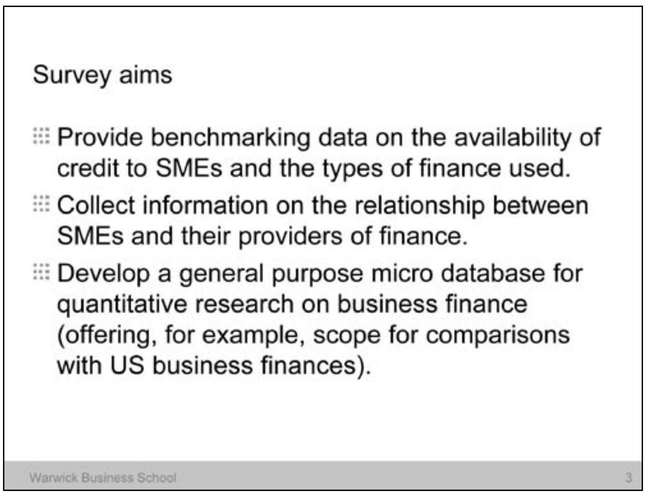
Arita Ono, of the Mizuho Research Institute, discussed small business financing in Japan. Ono pointed out that Japan's small business sector has a very high proportion of very small firms, but they account for a very small share of employment and an even smaller share of sales. Financing problems faced by the two groups of small businesses are very different. Commercial banks and credit cooperatives are the leading sources of small business credit. There is also a high degree of government involvement, via direct lending by three government institutions and credit guarantee programs. Most small firms have relationships with more than one bank, and most loans require collateral (often real estate). Lending to small businesses has declined since the mid-1990s. Possible reasons include continued sluggishness in Japan's economy, deterioration in the financial condition of Japan's banking sector during the 1990s, a less favorable attitude toward small business lending, and debt restructuring by small businesses since 1998. Policy measures have been introduced to redress the situation since 1998.

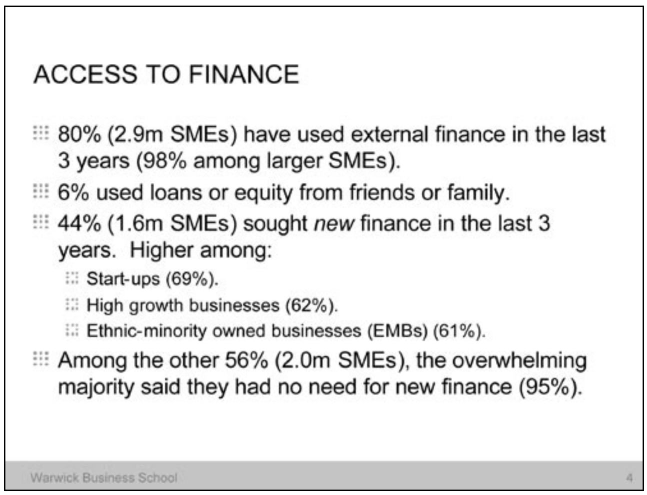
Development of Small Business Financing in the United Kingdom

Stuart Fraser
Senior Research Fellow
Centre for Small and Medium-Sized Enterprises
Warwick Business School









Start-up finance

- Main sources are: personal savings (65%); bank loan (10%); friends/family loan (6%).
- Typical amount used at start-up is £15,000.
- Main problem at start-up: finding customers (26%); obtaining finance (10%).
- Main reason for starting up: desire for independence (34%); to make money (15%).

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Rejected for finance

- 11% of businesses needing new finance (180,000 SMEs) experienced rejection.
  - 2 point higher likelihood of rejection amongst EMBs.
  - No difference for female-owned businesses.
  - 3 point lower likelihood of rejection amongst financially skilled businesses.
- 8% felt discouraged from applying (130,000 SMEs).
- Among SMEs denied a term loan outright: 59% got funding from another source; 5% dropped their plans; 4% fell into serious financial difficulties.

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BANKING RELATIONSHIPS

- 59% SMEs have just one main provider of finance.
- The length of this relationship is 15 years on average.
- Big 4 are the main bank to 78% of SMEs.
  - Big 4 in Scotland account for 95% of the market.

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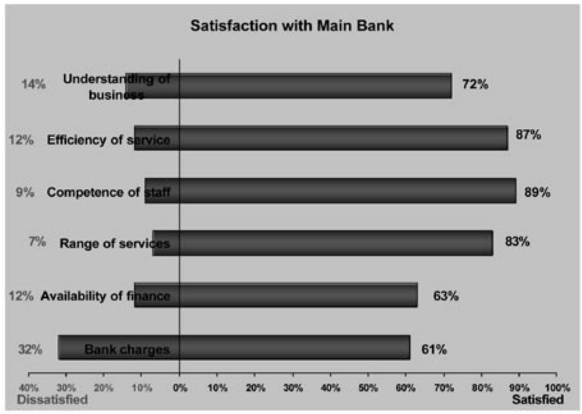

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Switching

- Annual switching rate is just over 2%.
  - 3% in businesses with trained/qualified financial managers.
  - 6% in high growth businesses.
- 'Fast and error free switching'? (Comp. Comm., 2002)
  - Most switchers report finding the process very easy.
- Main reasons for switching:
  - Better service at current bank/dissatisfied with service at previous bank (55% of switches).
  - Lower interest rates/charges at current bank (24% of switches).
  - Refused finance at previous bank (4% of switches).
- A further:
  - 7% are currently considering switching.
  - 29% would consider switching if approached by another bank.

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CONCLUSIONS

- In general most SMEs are not experiencing problems with finance.
  - Issues for female-owned and EMBs.
  - SBS EMB booster survey forthcoming.
- Supply of banking services heavily concentrated in the Big 4; and low rate of switching banks.
  - Higher latent propensity to switch banks.
  - Higher switching among dynamic and financially skilled businesses.
- Many papers to come from these data…

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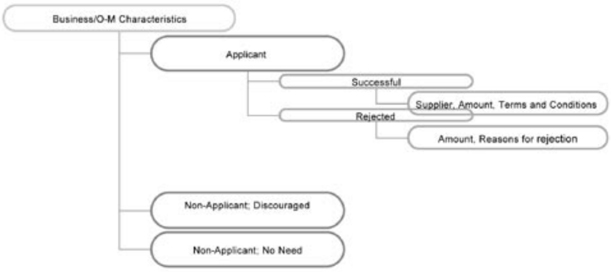
Survey Structure



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Types of financial products used

- 55% of SMEs use credit cards (28% personal credit cards; 34% business credit cards).
  - 21% borrow on personal credit cards.
- 65% of SMEs used any type of loan.
- Total borrowing (£88 bn) less than deposits (£92 bn).
- 3% of SMEs use equity finance.
  - Little indication of an un-met demand for formal VC.

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Loan margins and bank charges

- Median margin on bank loans is 2 points over base.
  - 3 points over base among female-owned businesses.
  - 1 point over base among EMBs.
- Average monthly bank charge is about £50 (ranging with firm size from £25 to £430).
  - By bank, charges vary from £26 to £85 per month.
  - Similar charges among Big 4.
- 'Regulation of charges' (Comp. Comm, 2002):
  - 34% receive free transactions.
  - 56% receive interest on their current account.
  - 64% receive one or both (79% since Jan. 2003).

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Banking Deregulation, Restructuring and Small Business Lending: A Canadian Perspective

Allan Riding
Professor
Eric Sprott School of Business
Carleton University

The Canadian Setting

- Long history as a highly concentrated multi-branch system
  - 6 large multi-branch institutions hold more than 80 percent of SME business banking
    - More than 1.5 million SMEs where an SME is defined as an operating firm with:
      - less than 500 employees
      - Less than $50 million in annual revenues.
  - Increasingly important (especially in the Province of Quebec) co-op institutions Credit Unions / Caisse Populaires
  - Variety of other lending institutions, often regional in scope, and several attempts by foreign banks to penetrate the Canadian SME banking market market (Wells Fargo, HSBC, etc.)
- Widespread concern that mergers among the 'big 6' will result in further concentration and less competition
  - Poses policy question: **to what extent do <would> banks compete?**

Banking Re-regulation

- 1996/97
  - Two pairs of the big 6 banks announced intentions to merge
  - Because of concerns about concentration, federal government formed Task Force on Restructuring Canadian Financial Sector
    - Established 'road map' banks must follow if they wish to obtain government approval of merger (no mergers between big 6 banks have occurred)
    - Still need to examine role of government with respect to ongoing calls for potential intervention.

On Interventions

- In the absence of independent rigorous research that specifies the nature and location of financing constraints, interventions may cause more harm than good.
- Brierley, (2001, p. 75) :
  - *"Public sector initiatives to support the financing of technology-based small firms … may be justified if market imperfections mean that the private sector does not provide capital to firms on competitive terms…[However] In the absence of market failure, such initiatives may themselves cause distortions by subsidizing, at considerable public cost, non-viable firms which are not attracting enough capital because they do not offer good investment opportunities."*

Canadian Interventions

- Two primary federal government interventions
  - CSBFA (Canadian Small Business Financing Act)
    - An Act of the federal government that allows the federal government to act as a guarantor of loans to eligible SMEs
      - Uses the commercial banking system as delivery agent to provide government guarantees for 80 percent of outstanding balance on loans of up to $250,000
      - Eligibility
        - term loans and capital leases of up to $250 000
        - annual gross revenues do not exceed $5 million
      - Activity of c. $1 billion annually; average loan of approximately $100,000
    - Poses policy questions:
      - **What are the costs and benefits?**
      - **Is this intervention incremental?**

Canadian Interventions

- Two primary federal government interventions
  - BDC (Business Development Bank).
    - Formerly the FBDB (Federal Business Development Bank), and once viewed as “lender of last resort”, the BDC now has specific mandates to provide business banking in the “gaps” not serviced by commercial banks.
    - Poses policy question:
      - **Where are the gaps?**
        - *Knowledge-based firms?*
        - *Women-owned businesses?*
        - *Equity capital?*
        - *Early stage firms?*

How to address these (and other) policy questions?

- To specify the nature and location of financing constraints require:
  - *reliable data, and*
  - *rigorous, independent analysis*
- *Response:*
  - *1997: Task Force on the Restructuring of the Canadian Financial Services Sector recommendation that Statistics Canada (federal government statistical organization) work with Industry Canada (Ministry of Industry) and Finance Canada (Ministry of Finance) to collect and analyse data on small business financing experiences.*
  - *Result: **Financing Data Initiative***

Financing Data Initiative

- Fall 2001, collected first iteration of *Survey of Financing of Small- and Medium-sized Enterprises.*
- *A* large-scale stratified sample survey administered during the Fall of 2001 gathering:
  a) extensive “tombstone” information (size, age, sector, other attributes of firms and owners, gender breakdowns, experience, etc.)
  b) information about process and outcome of financing applications during preceding year.
  - Focus was SME owners of private sector commercial businesses with:
    - less than $50 million in annual sales;
    - fewer than 500 employees; and
    - that reported business activity during 2001.
  - c. 9,500 cases, 66 percent response rate (therefore relatively free of non-response and selection biases)
    - Of these, more than 7,000 sent fax-back standard form financial statements and sources of finance
  - Representative of the (approximately) 1.5 million Canadian SMEs that have these attributes and was accurate to 0.005 (0.5%) 19 times out of 20.

Financing Data Initiative

- Fall 2002:
  - Second *Survey of Financing of Small- and Medium-sized Enterprises*
    - Large-scale stratified sample survey administered during the Fall of 2002 about financing experiences of preceding year
    - Same as for Fall 2001 survey but 3,842 valid cases, 66 percent response rate accurate to 0.008 (0.8%) 19 times out of 20; no financial statement data.
- Spring 2005
  - Third *Survey of Financing of Small- and Medium-sized Enterprises*
    - *Target: > 30,000 potential respondents*

So far …

- Able to accurately and precisely measure level of incrementality of loan guarantee program
  - 95 percent confidence, incrementality = 75% ± 9.0%
    - Broken down by size of firm, size of loan, gender of owner, etc.
  - Able to compare – holding other factors equal – whether particular categories of firms (women-owned, knowledge-based firms, high growth firms, early-stage firms) are relatively disadvantaged with respect to access to, or terms of: loans, leases, supplier financing, potentially external equity (rare event!)
  - Goal is to identify “gaps”, research is ongoing.
  - So far, no apparent “gaps” with respect to technology-based firms, growth firms, firms owned by women.
  - Also able to compare rates with which various categories of firms applied for the various types of financing.
    - e.g., women owned-firms much less likely to apply for VC funding after allowing for size, sector, etc.
- Many opportunities for ongoing research - underway.

THANK YOU

Questions & Comments

Development of Small Business Financing in Japan

Arito Ono
Senior Economist
Mizuho Research Institute

MIZUHO   Mizuho Financial Group

Development of SME Financing in Japan

Global Perspectives on Entrepreneurship Policy

Banking Deregulation, Banking Restructuring, and Small Business Lending: An International Comparison

June 15, 2005

Arito Ono
Senior Economist
Mizuho Research Institute

CONTENTS

1. SMEs in the Japanese Economy
2. Features of SME Financing in Japan
3. Decline of Small Business Lending
4. Recent Policy Actions for SME Financing
5. Recent Development of Small Business Lending

1

1. SMEs in the Japanese Economy

Table 1. Definition of Small and Medium-sized Enterprises (SMEs)

<table>
<tr><th>Industry</th><th>Size of capital (Millions of yen)</th><th>Number of employees</th></tr>
<tr><td>Manufacturing and others</td><td>300 or less</td><td>300 or less</td></tr>
<tr><td>Wholesale trade</td><td>100 or less</td><td>100 or less</td></tr>
<tr><td>Retail trade</td><td rowspan="2">50 or less</td><td>50 or less</td></tr>
<tr><td>Services</td><td>100 or less</td></tr>
</table>

Source: Small and Medium Enterprise Agency

2

1. SMEs in the Japanese Economy

Table 2. Share of SMEs in the Japanese Economy

(%)

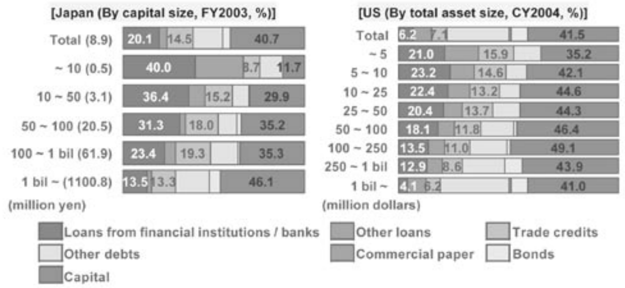
	Number of enterprises	Number of employees	Value of shipments / sales
Manufacturing	99.6 (88.7)	61.7 (19.9)	51.2 (8.7)
Wholesale trade	99.1 (68.4)	67.8 (10.7)	64.4 (5.6)
Retail trade	99.7 (86.6)	68.7 (26.1)	72.1 (16.5)
Total (Non-primary industries)	99.7 (87.2)	70.2 (25.3)	n.a.

Note: Data as of 2001. Figures in ( ) are those of "small" enterprises.
Source: White Paper on Small and Medium Enterprises in Japan 2004

3

2. Features of SME Financing in Japan

Figure 1. Financing Structure of Manufacturing Firms



Note: Japan's figures in parentheses are the average total assets (million yen).
Source: Ministry of Finance "Financial Statements Statistics of Corporations by Industry"
U.S. Department of Commerce "Quarterly Financial Report"

4

2. Features of SME Financing in Japan

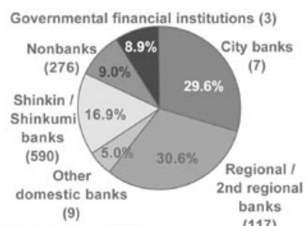
(ii) The Providers of Small Business Lending

- Commercial banks and credit cooperatives are the leading sources of credits <Figure 2>
- Intensive government involvement in small business loans
  - Direct lending by 3 government financial institutions <Figure 2>
  - 2 millions SMEs (40% of total SMEs) use the credit guarantee program <Figure 3>

5

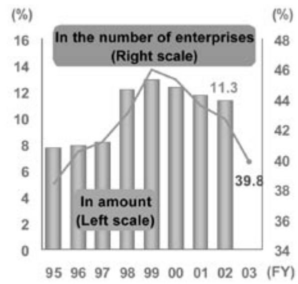
2. Features of SME Financing in Japan

Figure 2. Share of Lending to SMEs



Notes: 1. As of FY2002.
2. The figures in parentheses are the numbers of banks in each category.
Sources: Small and Medium Enterprise Agency, Federation of Moneylenders Association of Japan

Figure 3. Guarantee Use Rate



Source: National Federation of Credit Guarantee Corporations

6

2. Features of SME Financing in Japan

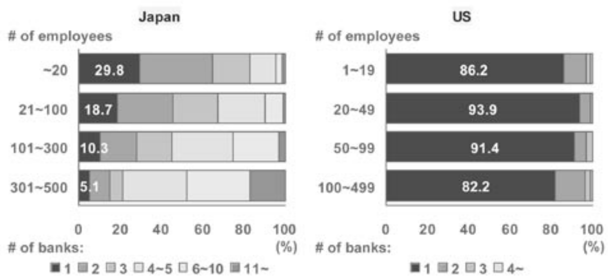
(iii) Fierce competition among banks

- The SMEs loan ratio (outstanding lending to SMEs / total lending) is high even for the largest banks
  - City banks 41.6%; Regional banks 49.8%; Second regional banks 56.2%
- Most SMEs have business relations with more than one bank <Figure 4>

7

2. Features of SME Financing in Japan

Figure 4. Number of Banks in Transactions (By number of employees)



Sources: Small and Medium Enterprise Agency, FRB "1998 Survey of Small Business Finances"

8

2. Features of SME Financing in Japan

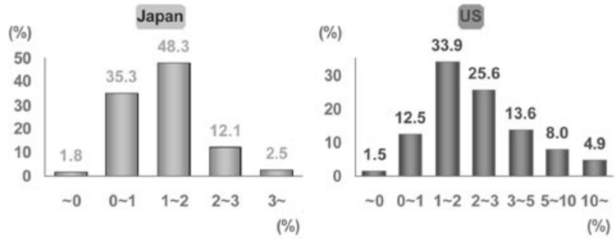
(iv) Low lending spread and "middle risk gap"

- Lending interest rates to SMEs by banks are concentrated around 2-4% <Figure 5>
- The low lending spreads that are not based upon credit risks are one of the major causes of the accumulation of NPL <Figure 6>

9

2. Features of SME Financing in Japan

Figure 5. Spread on Lending to SMEs

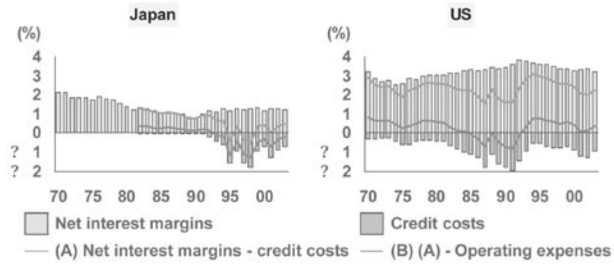


Note: Lending spread = Lending interest rate - Base rate
Base rates are mostly prime rates.
Sources: National Life Finance Corporation Research Institute
FRB "1998 Survey of Small Business Finances"

10

2. Features of SME Financing in Japan

Figure 6. Comparison of Net Interest Margins



Note: Net interest margins = Net interest income / Total assets
Credit costs = Provisions + Charge-offs
Source: Japanese Bankers' Association, Financial Services Agency, FDIC

11

2. Features of SME Financing in Japan

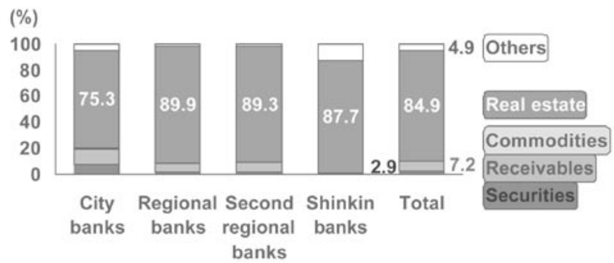
(v) Wide usage of collateral and personal guarantee

- 70-80% of loans to SMEs require collateral and/or personal guarantee
  - Composition of collateral: mostly real estate; account receivables and inventories are rarely used <Figure 7>
  - Types of guarantor: the representative director (business owner), third parties (relatives, other directors)

12

2. Features of SME Financing in Japan

Figure 7. Composition of Collateral, by Type of Financial Institutions

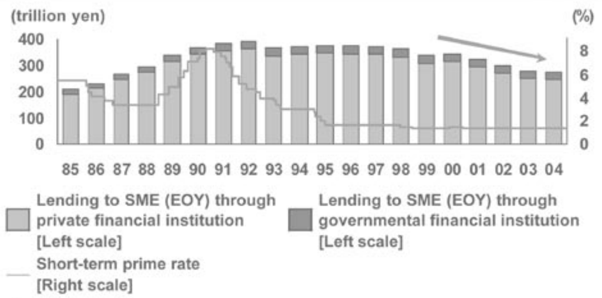


Note: As of FY 2002.
Source: Annual Reports

13

3. Decline of Small Business Lending by Banks

Figure 8. Outstanding Balance of Bank Loans to SMEs



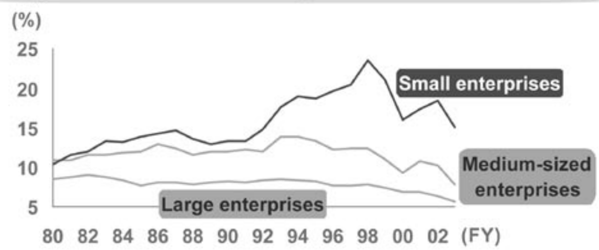
Source: Bank of Japan

14

3. Decline of Small Business Lending by Banks

Underlying Factors (i): Debt restructuring

Figure 9. Interest-bearing Debt to Cashflow Ratio



Source: Ministry of Finance

15

3. Decline of Small Business Lending by Banks

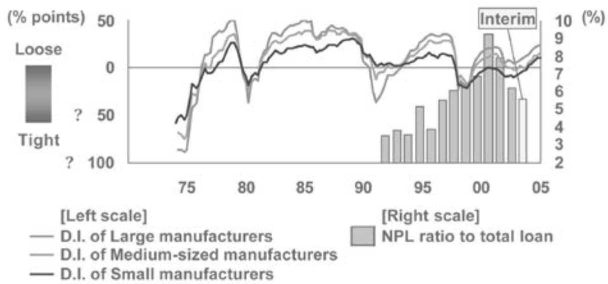
Underlying Factors (ii): Huge NPL of banks <Figure 10>

- Japanese banks have disposed of \94 trillion of their non-performing loans (NPL) during 1992-2003
- Lending attitude of financial institutions has been more severe to SMEs

16

3. Decline of Small Business Lending by Banks

Figure 10. Ratio of Outstanding NPLs to Total Loans and the D.I. of Lending Attitude



Sources: Japanese Bankers Association, Financial Services Agency, Bank of Japan

17

4. Recent Policy Actions for SME Financing

- Numerical target of loans to SMEs for the "capital-injected-banks" (1998-)
- Special Guarantee Program (1998-2001), Safety Net Guarantee Program (2001-)
- Tokyo Metropolitan Government CLO of Small and Medium-sized Biz Loans (1999-)
- Enhancing entry to the small business lending market to fulfill the "middle risk gap"
- Action Program concerning enhancement of Relationship Banking Functions (2003-)

18

5. Recent Development of Small Business Lending

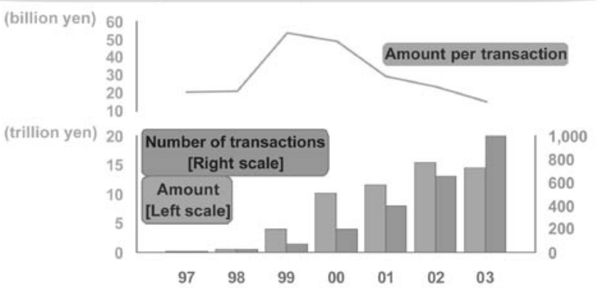
(i) Expansion of syndicated loan markets <Figure 11>

- Gradually spreading among SMEs
  - As for the number of loans originated in 2003, the share of private companies is 50.2% (listed companies 49.8%)
- Benefits for SMEs:
  - Increasing ROA
  - Reducing bank liquidity risk
- Benefits for banks:
  - Dispersion of credit risk
  - Increase in fee revenues

19

5. Recent Development of Small Business Lending

Figure 11. Expansion of Syndicated Loan Markets



Source: IFR

20

5. Recent Development of Small Business Lending

(ii) Development of credit scoring loans <Table 3>

- Quick, no collateral and no third party guarantee is needed
- Loan interest rates of credit scoring (CS) loans are higher than ordinary loans
  - Average loan interest rates: CS 4.5% > Total (including ordinary loans) 1.9%

(Masuda and Ono, "The Current Status of Credit Scoring Loans in Japan: Evidence from the Survey Data, Mizuho Research Paper, forthcoming)

21

5. Recent Development of Small Business Lending

Table 3. The Number of Banks Conducting Credit Scoring Loans

	Total	Regional banks	Second regional banks	Shinkin banks	Shinkumi banks	Number of transactions	Amount (billion yen)
Number of banks	602	65	50	306	181		
Sep 2003 (Ratio)	117 (19%)	34 (52%)	26 (52%)	47 (15%)	10 (6%)	59,168	441.4
Mar 2004 (Ratio)	188 (31%)	43 (66%)	36 (72%)	88 (29%)	21 (12%)	130,831	1,056.4
Sep 2004 (Ratio)	241 (40%)	53 (82%)	39 (78%)	120 (39%)	29 (16%)	222,362	2,011.8

Note: The figures in parentheses indicate the ratio of the number of banks conducting CS to the number of total banks in each category.
Source: Financial Services Agency

22

5. Recent Development of Small Business Lending

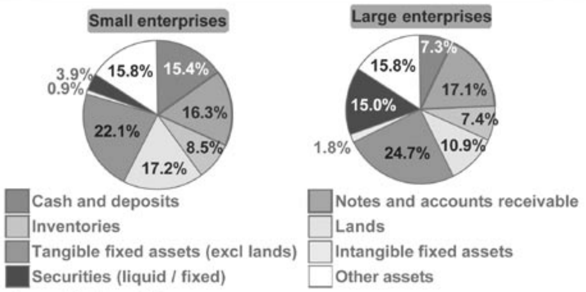
(iii) Asset-based lending

- Notes receivables and accounts receivables comprise 16.3% of assets, but rarely used as collateral <Figure 12>
- Registration system for "movable" properties
  - inventories, receivables, equipments (2004/11)
- Similar to the U.S. UCC (Uniform Commercial Code) Article 9

23

5. Recent Development of Small Business Lending

Figure 12. Composition of SMEs' Assets



Source: Ministry of Finance

24

Keynote Speech, 5:30 pm

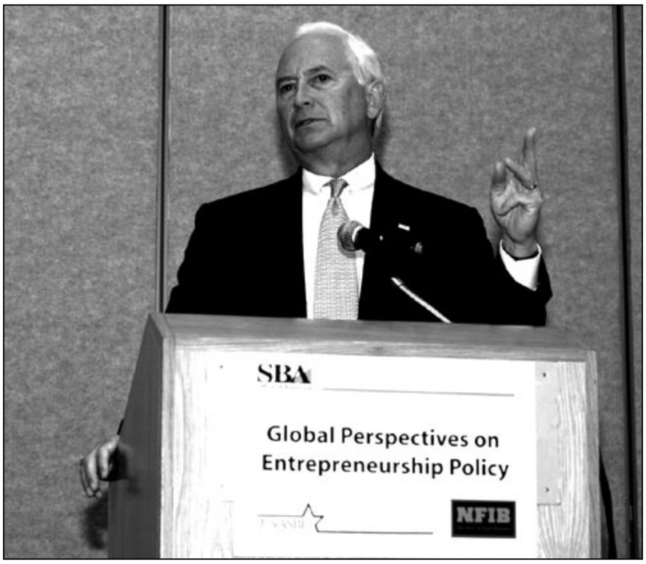
The Importance of Policy to Small Business Owners

Jack Faris
President and CEO
National Federation of Independent Business

Jack Faris expressed his excitement at the enthusiasm of those in attendance for pro-small business policy. Faris encouraged the crowd to get involved in the policy process, stressing the value of business owners influencing the direction of policy instead of allowing unfavorable results to shape the future of their firms.

Faris used the acronym "C-I-A" to sum up the most effective approach to business advocacy: encouraging small business owners to "control" those things they are able to; "influence" those things they cannot control; and "accept" the situations that they are unable to control or influence.

Faris acknowledged, too, that government regulation is ultimately unavoidable. Nevertheless, with proper guidance from organizations like the NFIB and its counterparts worldwide, small business owners can involve themselves in the process of government rulemaking earlier on, so as to maximize their influence over laws and rules that affect them.



Jack Faris delivered the closing keynote remarks to the session.

Participant Biographies

David B. Audretsch is director of the Institute for Development Strategies at Indiana University; director of the Entrepreneurship, Growth and Public Policy Group at the Max Planck Institute in Jena, Germany; and a research fellow of the Centre for Economic Policy Research in London. Audretsch's research focuses on the links between entrepreneurship, government policy, innovation, economic development and global competitiveness. He has consulted with the World Bank, the United Nations, the Commission of the European Union, and the European Parliament. He is co-founder of *Small Business Economics: An International Journal.*

Bo Carlsson is director of Ph.D. programs and research at the Weatherhead School of Management at Case Western Reserve University. He has written numerous books and articles in industrial economics, small business and entrepreneurship, technological change, and industrial policy. His current research interests include the digital economy, entrepreneurship, technology transfer, intellectual property management, and the nature and role of technological systems in economic growth.

William (Denny) Dennis, Jr. is senior research fellow of the National Federation of Independent Business Research Foundation. He has served as president of the International Council for Small Business. He has testified numerous times before congressional committees regarding such key small business issues as the availability of credit and health care. He recently received the Small Business Administration's Special Advocacy Award, which recognized him as "one of small business's most committed advocates, with considerable expertise in small business research."

Simeon Djankov is manager of the World Bank's Monitoring and Analysis Unit in the Private Sector. He joined the World Bank in 1995 and has worked on privatization and enterprise restructuring in transition economies, on corporate restructuring in East Asia, on corporate governance issues in emerging markets, and most recently on improving the environment for doing business around the world. He is also a principal author of the *World Development Report 2002: Building Institutions for Markets.*

Jack Faris has served as president and CEO of the National Federation of Independent Business. since April 1992. NFIB is the nation's largest advocacy organization, representing small and independent businesses in Washington, D.C., and all 50 state capitals. NFIB was ranked the most influential business organization (and third overall), in *Fortune* magazine's survey of "Washington's Power 25." NFIB's purpose is to influence public policy at the state and federal levels and to be a key business resource for small and independent business in America.

Stuart Fraser is senior research fellow at the Centre for Small and Medium Sized Enterprises at Warwick Business School in the United Kingdom. He has carried out a number of research projects on small firms for the U.K. government. His latest study of small firm finances in the U.K. was conducted for a consortium of public and private organizations led by the Bank of England. This is the first study in the U.K. to offer a close analysis of small firms' access to external finance and their banking relationships.

Betina Hagerup is deputy director and a member of the executive board at the Danish Commerce and Companies Agency. She is in charge of business impact assessments, reducing red tape for Danish businesses, and e-government solutions, including the national Danish business portal. Her main areas of focus are international economy and the internationalization of enterprises.

Brian Headd is an economist with the U.S. Small Business Administration's Office of Advocacy. He is the author of numerous Advocacy publications focusing on small businesses' status and their contributions to the economy. His work has been published in the journals *Business Economics, Monthly Labor Review,* and *Small Business Economics.*

Adriana Kugler is associate professor of economics at the University of Houston and Universitat Pompeu Fabra in Barcelona. She is a faculty research fellow of the National Bureau of Economics Research in Boston and the Institute for the Study of Labor in Bonn, and she is a research affiliate of the Centre for Economic Policy Research in London. She has been a visiting scholar at the Federal Reserve Bank of San Francisco and at the Brookings Institution.

Jane Lommel is president of Workforce Associates, Inc., a private research consulting firm. She is an expert in the field of human resource management and workforce development. Her current activities include writing lecturing, and consulting in such areas as workforce development, best practices in recruiting and retention, re-employment of older and displaced workers, tapping underemployed and underutilized workers, and Internet applications in recruitment and job searching.

Jeffery McMullen is assistant professor of management and entrepreneurship at Baylor University. His research interests encompass opportunity recognition, entrepreneurial action, social entrepreneurship, and institutional theory. He was the 2002 winner of the Academy of Management's award for best conceptual paper in the entrepreneurship division, and he has forthcoming articles in the *Academy of Management Review* and the *Journal of Business Venturing*. McMullen has taught strategic management and entrepreneurship at Baylor University and the University of Colorado.

Chad Moutray is chief economist of the Office of Advocacy of the U.S. Small Business Administration, where he guides internal and external research. He has organized a series of regional focus groups on small business research; overseen the creation of a new annual publication, *The Small Business Economy;* and organized two co-sponsored conferences: "Entrepreneurship in the 21st Century" and "Putting It Together: The Role of Entrepreneurship and Economic Development."

Arito Ono is senior economist in the research department on public policy at the Mizuho Research Institute in Tokyo, Japan. His primary fields of research include banking and finance, international finance, and political economy. He has a forthcoming publication on the current status of credit scoring loans in Japan.

Charles Ou is senior economist with the U.S. Small Business Administration's Office of Advocacy. Before joining SBA in 1978, he taught economics at Wake Forest University, the University of Dayton, and Queens College. His specialties are capital and credit markets and the financial aspects of small business issues, including small business financing and taxation. Ou has done extensive research on small business capital access issues and has worked with other federal agencies, especially the Federal Reserve Board, to develop small business finance databases.

Allan Riding is professor of finance at Carleton University. In recent years, his research has focused on the financing of small businesses. He was the principal researcher for several national studies of informal investors and of several investigations of bank lending to small firms. His current research includes an analysis of small business bank relationships, further development of the theory of loan guarantees, and ongoing investigation of private investor financing.

Francis W. Rushing is professor emeritus of economics at Georgia State University and director of the Center for Business and Economic Education. Rushing's research interests include science and technology policy, international transfer of technology, workforce development, and economics and entrepreneurship education. Rushing has written several books, and his articles have been published in *Technology in Society, Journal of Economic Development, Journal of Enterprising Cultures* and *Journal of Economic Education.*

Donald Siegel is professor of economics and chair of the department of economics at Rensselaer Polytechnic Institute. He is co-editor of the *Journal of Technology Transfer,* an international journal devoted to the managerial and policy implications of technology transfer. In recent years, he has co-edited 15 special issues of journals on topics relating to university technology transfer, entrepreneurial development, and corporate social responsibility. His primary research interests are the economics of technological change, productivity analysis, university technology transfer, and corporate social responsibility.

Thomas M. Sullivan is chief counsel for advocacy with the U.S. Small Business Administration Office of Advocacy. The chief counsel is charged with independently advancing the views, concerns, and interests of small business before Congress, the White House, federal regulatory bodies, and state policymakers. In the past three years, the Office of Advocacy has helped save America's small businesses more than $31 billion in money they would have spent attempting to comply with federal regulations.