

Study on Application of Microfinance in Japan

~ Its Role in Safety Net and Independence Support~

Yuichi Doi

Key Words: *safety net, microfinance, independence support, low-income layer*
Supplemental Security Income, Life Welfare Fund

1. Background and Objectives

Japan has recently been witnessing the increase of unemployed people, irregular employees, and the young generations among low-income layer. In addition, as the whole society has been aging, the number of the beneficiaries of the Supplemental Security Income has been increasing rapidly. However, due to the shrinking governmental budget, the central government has implemented several restricting changes on social welfare framework to reduce its costs. Instead, on the purpose of the urgent need of strengthening the safety net and independence support policies, the government has recently been making several actions such as restructuring of Life Welfare Fund, though it has been reported that the results of those actions are limited and the public fund system has a lot of problems. In many developing countries, a funding methodology, called microfinance, of providing small amount of funds for poor people who have little or no access to financial services has been widely utilized and proved successful in many cases. Also, in western developed countries, some microfinance institutions and related services, which are promoted by governments, have been reported successful in increasing business establishment and employment. However, Japan has not introduced this microfinance yet. Since the low-income layer has been struggling with problems such as multiple debts, the possibility of application of microfinance in Japan should be examined. Therefore, this study analyzed the present situation of the safety net in Japan, and examined the necessity and possibility of applying microfinance to the public safety net.

2. Methods

The analyses of the present public safety net were conducted by reviewing reports and papers of governmental organizations and committees related to the safety net. By reviewing and analyzing five cases of private or local-governmental funding activities, the critical factors to succeed in achieving independence of poor people were reviewed. After those analyses of the present situation about the safety net, whether the microfinance can be an effective solution to the problems of the safety net was discussed.

3. Results and Discussions

This study proved that the problems of the present safety net are (1) the lack of human resource, professional quality on finance, and financial resource in the safety net's implementation systems, (2) the exclusion of those who suffer debts and some part of the low-income layer from the safety net, and (3) the lack of development on policy implementation for social independence support. And, it is found that the critical success factors of safety net funds are (1) tight and effective cooperation with other professional institutions, (2) careful consulting and advisory work before, during, and after funding, and (3) promoting willingness to repay the debt and to achieve independence by utilizing effective human connections. Finally, it was explained that microfinance can realize (1) acquisition of strong implementation systems with professional quality on finance and with sufficient financial and human resource, (2) support to those who are excluded from the present safety net, and (3) promotion of social independence support by effective human connections among local community.

4. Conclusion

This study makes clear that microfinance is to be applied in Japan as an effective manner to complement the present safety net. The costs and risks to apply the microfinance to the safety net should be examined further more to design a well-functioning implementation system.