Chapter 5
Prospects for Regional Financial Institutions to Enhance Their Roles Through Hometown Tax Donation—Current State of Lending by Regional Financial Institutions and of Intra-regional Industry-Government-Banking Collaboration

Keywords Industry-government-banking collaboration · Regional financial institutions · Financial intermediary function

5.1 Prospects for Regional Development Through Industry-Government-Banking Collaboration

Similar to the relationship between crowdfunding and regional financial institutions as presented in Chap. 3, collaboration with regional financial institutions is also essential in regional revitalization triggered by the Hometown Tax Donation gift market. As local businesses scale up, as introduced in Chaps. 3 and 4, they will need working capital and funds for capital investment. As such, expansion of local businesses driven by Hometown Tax Donation offers regional financial institutions an opportunity to increase lending. Financial institutions across Japan and most notably in rural areas face the challenge of raising loan-to-deposit ratio. Meanwhile, if loans are extended to businesses that simply exploit the special demand from Hometown Tax Donation without enhancing capabilities or skills, there will be risk of loan default once the system is terminated. Thus, rigorous screening is required. Yet, with backup in financing by financial institutions, the gift market should be able to drive regional economic revitalization.

One such case is the Kitakami Shinkin Bank based in Kitakami City, Iwate Prefecture. According to a research by Matsuzaki (2014), Hometown Tax Donation has prompted the bank to facilitate local industry-government-banking collaboration. The author also visited the bank in May 2017 and interviewed an executive director and staff in charge of promoting regional collaboration, whereby it was revealed that the bank excavates potential gift providers and offers local businesses guidance

This chapter is based on Hoda and Kubo (2019), with some edits and additions.

T. Hoda and R. B. Dasher, *Local Tax Benefits at a Distance*,
Kobe University Social Science Research Series,
https://doi.org/10.1007/978-981-16-5138-0_5

on new product development and marketing strategies to enter into the gift market. They have also actively approached businesses that were originally not their clients, among which several later applied for loans.

In this way, if regional financial institutions acknowledge that Hometown Tax Donation gifts help enhance management or growth potential of gift providers, they may think of leveraging the system to enhance management capabilities of businesses in the region. Furthermore, if Hometown Tax Donation helps reinforce relationships between local businesses and financial institutions, the system may be valued to a certain extent as a solution for sustainable regional development. Yamori (2014) has also pointed out the importance of frequent contact between local businesses and their main bank.

Accordingly, this chapter verifies regional financial institutions' perceptions toward business opportunities and their lending activities deriving from Hometown Tax Donation gifts. More specifically, based on case studies and a survey research, I attempt to offer political implications for revitalizing regional financial institutions and regions.

5.2 Cases of Industry-Government-Banking Collaboration Driven by Hometown Tax Donation Gifts

I will first present the case of the Kashiwazaki Shinkin Bank located in Kashiwazaki City, Niigata Prefecture, which I interviewed. Similar to the case of the Kitakami Shinkin Bank (Matsuzaki 2014), they strengthened ties with local businesses and reinforced their role in the region through Hometown Tax Donation. I conducted a semi-structured interview targeting the president and staff in charge of regional collaboration of the Kashiwazaki Shinkin Bank on July 4, 2018, and also visited and interviewed their business partners and clients.

In short, the bank was also able to reinforce their role in the region prompted by Hometown Tax Donation. However, their case is slightly different from the Kitakami Shinkin Bank. The Kashiwazaki Shinkin Bank focuses on marketing capability enhancement centered on design, and new product development by local businesses. They do so because financial institutions cannot sustain communications with businesses by only offering loans, which is their common approach, since businesses either need or do not need loans. Meanwhile, many businesses want to hear advice on marketing or new product development, and would even voluntarily approach financial institutions. Furthermore, actual development of new products will lead to loans.

The bank is not only aiming to strengthen one-on-one ties with businesses but is also making an effort to bolster regional power. Specifically, they deployed a project titled "Takayanagi Town Design Competition and Matching" in Takayanagi Town within Kashiwazaki City. In 2013, the initial year of the project, a local university and chamber of commerce and industry jointly designed product labels for a local *sake* brewing company, and the design that won grand prize was actually adopted as a product label. This *sake* brewing company faced business succession risks, but was revamped owing to the new product label, and has even invited a young master brewer from outside the company recently with an aim to expand operations once more. Consequently, they are seeking lending support from the Kashiwazaki Shinkin Bank.

In 2014, the following year, the matching project was upgraded while maintaining industry-government-academia-banking collaboration, and a shopping bag with a unified logo was created to promote the Takayanagi Town brand across Japan. Students studying design in a local university submitted design ideas, and the shopping bag design that won grand prize was refined by a professional designer and commoditized, and are now being used by gift providers throughout Takayanagi Town when delivering gifts to donors. Designs that did not win grand prize are also being adopted and used by local businesses for product packaging and designs. Hence, the major challenges rural businesses face in product packaging and design capabilities were addressed through industry-government-academia-banking collaboration.

The significance of this case is that various local stakeholders were involved, including a university, multiple businesses, and a chamber of industry and commerce, and that the Hometown Tax Donation gift market was used as an outlet for the deliverables. The matching project gained momentum by offering a sales channel and opportunity to receive external evaluation, which in turn revamped businesses and led to lending by financial institutions. Normally, regional financial institutions would approach businesses only to offer loans, but frequently to no avail; however, by creating a reverse flow where businesses approach financial institutions, regions are being revitalized. The bank took the project one step further in 2018 by deploying the "Regional Branding Support Project" with major marketing solutions company Hakuhodo and major department store chain Mitsukoshi, and jointly developed new products for regional branding with three local businesses. The new products will be offered as Hometown Tax Donation gifts. Owing to such initiatives, the bank has been receiving inquiries from local businesses on various matters with some cases also leading to lending.

According to the bank, local businesses felt that they could not enter the gift market on their own, but that the hurdle was lowered owing to various support including in design. Ultimately, more than five businesses in Takayanagi Town developed new products and entered into the gift market. The bank mentioned that Hometown Tax Donation offers major benefits to both businesses and financial institutions since the gift market is transparent, making it easier for businesses to develop new products and financial institutions to foresee medium- to long-term visions of such businesses.

While such initiatives were administered by the Regional Support Office at the bank's headquarters, the bank's next challenge is to instill the same issue awareness in each branch and have corporate sales personnel take the lead. The bank carries out regular training programs at each branch, and it will be important to entrench such awareness in their corporate mission including incorporating them in personnel evaluations.

5.3 Survey Research Targeting Regional Financial Institutions Regarding Industry-Government-Banking Collaboration Triggered by Hometown Tax Donation

A question that needs to be addressed is whether the Kitakami Shinkin Bank and Kashiwazaki Shinkin Bank cases are unique, or if other regional financial institutions across Japan are also aware that the Hometown Tax Donation gift market benefits regional development and banks like themselves. To address this question, I set three hypotheses and conducted a survey research targeting regional financial institutions nationwide to verify their perceptions and actions. The three hypotheses are: (1) regional financial institutions are aware that Hometown Tax Donation helps revitalize and foster local businesses; (2) regional financial institutions are reinforcing their role in supporting local businesses owing to Hometown Tax Donation (e.g., offering management guidance or consulting services); and (3) regional financial institutions are expanding their lending owing to Hometown Tax Donation.

5.3.1 Overview of Research and Attributes of Respondents

The survey was conducted by sending questionnaires via postal mail to credit unions, *shinkin* banks, and first- and second-tier regional banks across Japan in August 2017. The response rate was 33.9% for the 487 banks that questionnaires were sent to, with the highest rate of 36.7% from *shinkin* banks, followed by credit unions (35.0%), second-tier regional banks (28.5%), and first-tier regional banks (23.4%). Looking at regional inclination of response rates by prefecture, prefectures with response rates 1 or more standard deviation higher than the national average were Yamanashi, Wakayama, Shimane, Kagawa, Tokushima, Oita, Saga and Kumamoto, while those with response rates 1 or more standard deviation lower were Akita, Fukui, Saitama, Chiba, Hyogo, Ehime and Kagoshima. Hometown Tax Donation often receives negative media coverage in urban areas since it involves transfer of funds from urban to rural areas. As such, we imagined the response rate to be higher in rural areas in support of Hometown Tax Donation and lower in urban areas; however, this was not the case. Among the urban areas, while the response rate was indeed low in Saitama and Chiba, the response rate in Tokyo, Ehime and Osaka exceeded the national average, reaching 40.5%, 40.9% and 35.0% respectively; hence no extreme deviation was identified between urban and rural areas.

As for the contents of the questionnaire, we first verified each financial institution's current state of lending and presence of comprehensive partnerships with local municipalities, and then asked whether they thought Hometown Tax Donation helped foster local businesses or could potentially lead to industry-government-banking collaboration. We then analyzed and verified our hypotheses in terms of financial institutions' initiatives related to Hometown Tax Donation, offering of consulting services, and current state of lending, by classifying the financial institutions according to presence of comprehensive partnerships with municipalities, urban and rural areas, and institution types.

5.3.2 Regional Financial Institutions' Perception of Hometown Tax Donation

First, we verified regional financial institutions' perception of the overall impact Hometown Tax Donation has on regional development. 70.9% of the respondents had a framework for comprehensive partnership with municipalities in place; however, regarding whether they thought Hometown Tax Donation affected such comprehensive partnership, only 4.9% responded that it did and 10.6% responded that it likely would going forward. Also, while 65.5% of the financial institutions had a consultation desk for regional revitalization, only 1.7% responded "Applies" and 5.9% responded "Somewhat applies" to the question of whether they thought Hometown Tax Donation accelerated or reinforced the placement of expert teams or consultation desks dedicated to regional revitalization. These results show that not a lot of financial institutions think that Hometown Tax Donation stimulates collaboration among local financial institutions and municipalities, and that the impact on their organizational structure is also limited.

On another note, regional financial institutions are expected "to support creating regional comprehensive strategies" in the short run, and "to promote comprehensive strategies" and "comprehensively support local businesses" in the long run (Kimura 2015). Over 40% of the financial institutions answered in the affirmative to the question of whether they thought Hometown Tax Donation helps municipalities create or enhance regional comprehensive strategies. It seems that regional financial institutions perceive that they may be able to reinforce their role by effectively leveraging Hometown Tax Donation.

As for provision of Hometown Tax Donation gifts itself, only 3.8% responded that it should be banned, while 71.3% replied that it does not pose a problem. These figures imply that regional financial institutions are aware that provision of gifts contributes to the local economy. We analyzed the responses to these questions by classifying financial institutions into urban and rural areas since there is stronger criticism toward the system in urban areas; however, no significant difference was identified.

5.3.3 Perception of Hometown Tax Donation's Impact on Local Businesses and Economies

Next, we reveal whether regional financial institutions perceive that Hometown Tax Donation enhances management capabilities of local businesses from four aspects: "promoting industry-government-banking collaboration," "promoting the launch of new businesses or companies," "boosting loan-to-deposit ratio," and "enhancing business capabilities of gift providers" (Fig. 5.1).

First, regarding "promoting industry-government-banking collaboration," 45.8% responded affirmatively with either "Applies" or "Somewhat applies," indicating that the system's contribution to the region was appreciated to a certain degree. However, only 13.5% responded affirmatively to the category "boosting loan-to-deposit ratio" and 3.7% to the category "promoting the launch of new businesses or companies." These figures suggest that although regional financial institutions expect industry-government-banking collaboration to be promoted, they do not yet foresee effects on actual economic activities such as an increase in loan-to-deposit ratio or startups.

We also asked respondents to rate related categories on a scale of 1–5 to verify whether they thought gift providers' skills or capabilities were enhanced. Results are shown in Fig. 5.2. Similarly, Fig. 5.3 shows the extent to which respondents thought Hometown Tax Donation contributes to regional revitalization.

Figures 5.2 and 5.3 indicate that regional financial institutions perceived a rise or improvement by gift providers in four categories: motivation for new product development, product design capabilities, local reputation, and customer satisfaction. As for impact on the region, they perceived that the system affects new business development, extra-regional sales expansion, and city marketing. Regarding this aspect, Yamori (2014) has pointed out that the greatest barrier to new business development is human resource rather than funding, and it is interesting that regional financial institutions have expectations for Hometown Tax Donation in areas where they themselves cannot single-handedly support businesses. Meanwhile, regional financial institutions are skeptical about the system's impact on promoting migration or settlement and increasing supplies of high-risk funds.

In summary, it was revealed that regional financial institutions perceive Hometown Tax Donation as having a certain degree of impact on local businesses and economies,

	Applies	Somewhat applies	Somewhat does not apply	Does not apply
Promoting industry-government-banking collaboration	3.7%	42.1%	47.0%	7.3%
Promoting the launch of new businesses or companies	1.2%	2.5%	47.8%	48.4%
Boosting loan-to-deposit ratio	1.2%	12.3%	51.5%	35.0%

Fig. 5.1 Hometown Tax Donations' impact as perceived by regional financial institutions

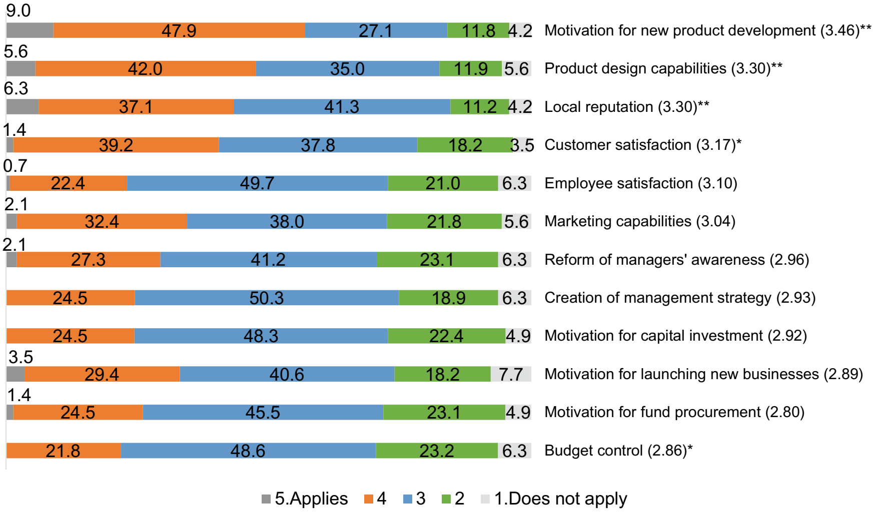

Fig. 5.2 Impact of Hometown Tax Donation on enhancing gift providers' business capabilities (from the perspective of regional financial institutions)

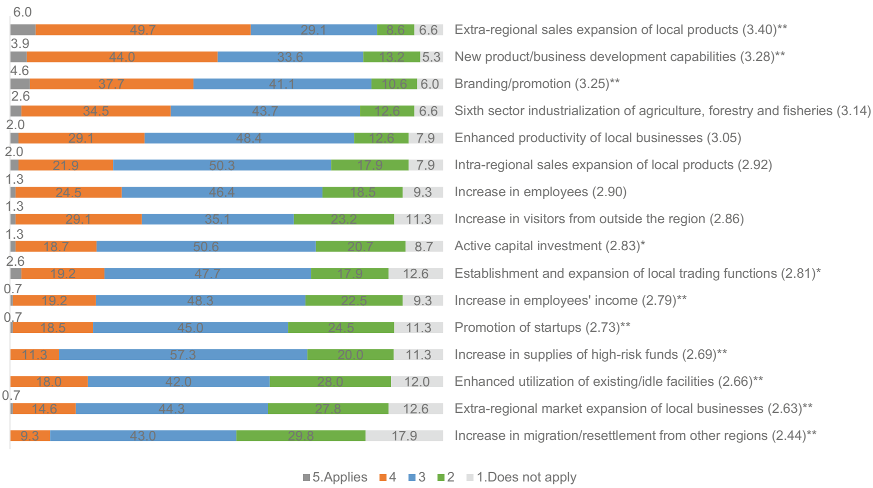

Fig. 5.3 Impact of Hometown Tax Donation on regional development (from the perspective of regional financial institutions). *Note* The number of responses vary between questions in both Figs. 5.2 and 5.3 since some questions were unanswered; however, all questions received 145 or more responses. Respondents were asked to rate each category on a scale of 1–5 in 1 point increments. The average is shown in parentheses. "**" and "*" are marked for categories with significant differences of 1 and 5% levels from the median of 3 points deriving from the Wilcoxon signed rank sum test

yet not leading to migration or settlement, or increased supplies of high-risk funds which would influence their own business domain. With regards to high-risk funds, this situation is similar to the low affirmative response rate for Hometown Tax Donation's contribution in "boosting loan-to-deposit ratio." The results thus far imply that hypothesis (1) is mostly valid.

5.3.4 Stance and Current State of Lending to Gift Providers

Next, to verify hypotheses (2) and (3), we confirmed whether Hometown Tax Donation enhances the role of regional financial institutions and their lending status. First, 32.1% of the respondents had received inquiries by gift providers on topics other than cash flow (e.g., product development, establishing a manufacturing scheme, and marketing methods). While we could not confirm whether they actually offered consulting services in this round of survey, if local businesses are asking regional financial institutions for counsel on topics other than loans, this may lead to provision of value-added services or management advice services aside from lending, which is precisely what the central government and Financial Services Agency (FSA) of Japan expect from regional financial institutions.

Next, we verified screening stance. Some voice concern that loans could become non-performing if the Hometown Tax Donation system is terminated for some reason; hence, we assumed such views might influence screening and lending stances. However, only 5.2% responded that they would "tighten screening standards for new or additional lending" to gift providers, while 23.4% responded that they would "tighten screening for capital investment only" and 46.1%, or about half, responded that they would "maintain current screening standards." This result shows that regional financial institutions are not setting tighter screening standards for gift providers. However, approximately one out of four respondents are cautious about capital investment.

Having confirmed that screening stance will be maintained, we next verified lending stance. Regarding regional financial institutions' lending stance to gift providers, 20.8% responded that they "intend to actively extend loans." On the other hand, less than 2% responded that they "are cautious about lending in apprehension of any backlash accompanying the possible termination of Hometown Tax Donation." In addition, approximately half (47.2%) responded that they "will consider the possibility of lending working capital while keeping a close watch on the extent of regulation tightening by the government." Meanwhile, many of the financial institutions that responded "Other" commented that their lending stance has not changed.

On confirming that both screening and lending stances are being maintained, we verified the actual state of lending. Results showed that 5.0% of the respondents had acquired new customers and extended new loans to them, while 7.2% had provided additional loans to existing clients prompted by Hometown Tax Donation. As such, Hometown Tax Donation has not triggered a large increase in lending.

As for whether businesses are in need of funds, 39.6% of the respondents had received inquiries from gift providers on cash flow. Thus, while some 40% of the regional financial institutions provided counsel on lending to gift providers, less than 10% actually extended new or additional loans. This is consistent with Fig. 5.2 which indicated that regional financial institutions are skeptical about Hometown Tax Donation boosting supplies of high-risk funds. Yet how should one interpret the fact that regional financial institutions—which need to take on the challenge of increasing lending and loan-to-deposit ratio within their regions—are receiving inquiries about lending, but not actually lending? Such inquiries should pose an excellent opportunity for regional financial institutions to improve their benchmark in financial intermediary functions as per FSA expectations.

One might assume that this is due to the time lag between when financial institutions provide counsel to businesses and when loans are actually extended. However, this does not seem to be the case, since the ratio of regional financial institutions expecting an increase in lending is not high as shown in Fig. 5.3. Additionally, respondents are not necessarily tightening their screening or lending stances.

One factor may be because regional financial institutions are taking a wait-and-see stance on lending to gift providers for some reason. Another factor may be because the businesses that seek counsel on cash flow mostly have low credit capability. If the latter holds true, the Hometown Tax Donation gift market may unintentionally be prolonging the life-span of rural businesses that are not creditworthy. Needless extension of business life-span would produce so-called zombie companies, but if, on the contrary, the system enhances management capabilities of companies with low credit capability, regional economic foundations may be fortified. It will be necessary to conduct both qualitative and quantitative research regarding such financial conditions of gift providers.

We validated hypotheses (2) and (3) considering all of the survey results above. First, regarding hypothesis (2), it is notable that over 30% of the respondents were asked for counsel by gift providers on matters other than cash flow. The Japanese Bankers Association (JBA) proposes three desired roles of financial institutions in the area of regional revitalization: "to nurture talents who can identify business opportunities," "to actively excavate companies' needs," and "to exert a consulting role tailored to each local community." The fact that gift providers are seeking counsel from regional financial institutions on matters other than lending poses an excellent opportunity to fulfil these three roles. Although this round of survey research did not explicitly verify whether consulting functions were being offered, this does not seem to be the case yet in light of the number of new clients excavated, lending status, and various perceptions by regional financial institutions. Therefore, hypothesis (2) does not seem to be valid.

Perhaps inquiries by businesses are not bearing fruit because of criteria in personnel evaluation of respective financial institutions. Results of a survey by Yamori (2018) targeting branch managers of regional financial institutions show that the most important criteria in personnel evaluation is lending to new clients, followed by increase in lending to existing clients, and endeavors to support management of

		Has comprehensive partnership (n=117)		Does not have comprehensive partnership (n=48)		Urban (n=35)		Rural (n=130)		Credit union (n=41)		*Shinkin* bank (n=97)		Regional bank (n=27)	
1.Asked for counsel on cash flow or lending	Yes	53	45.3%	10	20.8%	5	14.3%	58	44.6%	12	29.3%	36	37.1%	15	55.6%
	No	58	49.6%	38	79.2%	27	77.1%	69	53.1%	29	70.7%	58	59.8%	9	33.3%
	N/A	6	5.1%	0	0.0%	3	8.6%	3	2.3%	0	0.0%	3	3.1%	3	11.1%
2. Asked for counsel on other matters	Yes	45	38.5%	6	12.5%	5	14.3%	46	35.4%	7	17.1%	30	30.9%	14	51.9%
	No	66	56.4%	42	87.5%	27	77.1%	81	62.3%	34	82.9%	65	67.0%	9	33.3%
	N/A	6	5.1%	0	0.0%	3	8.6%	3	2.3%	0		2	2.1%	4	14.8%
Both 1 and 2	Yes	**40**	**34.2%**	**4**	**8.3%**	**4**	**11.4%**	**40**	**30.8%**	**7**	**17.1%**	**25**	**25.8%**	**12**	**44.4%**
3.Extended new loans associated to Hometown Tax Donation	Yes	8	6.8%	0	0.0%	0	0.0%	8	5.9%	0	0.0%	4	4.1%	4	14.8%
	No	103	88.1%	48	100.0%	34	97.1%	117	86.7%	41	100.0%	92	94.9%	18	66.7%
	N/A	6	5.1%	0	0.0%	1	2.9%	10	7.4%	0	0.0%	1	1.0%	5	18.5%
4.Extended additional loans associated to Hometown Tax Donation	Yes	10	8.5%	1	2.0%	0	0.0%	11	8.2%	0	0.0%	7	7.2%	4	14.8%
	No	95	81.2%	47	98.0%	31	88.6%	111	82.2%	41	100.0%	84	86.6%	17	63.0%
	N/A	12	10.3%	0	0.0%	4	11.4%	13	9.6%	0	0.0%	6	6.2%	6	22.2%
Both 3 and 4	Yes	**4**	**3.4%**	**0**	**0.0%**	**0**	**0.0%**	**4**	**3.1%**	**0**	**0.0%**	**2**	**2.0%**	**2**	**7.4%**

Fig. 5.4 Lending by regional financial institutions and inquiries from businesses. *Note* "Urban" includes financial institutions in Tokyo, Kanagawa, Saitama, Chiba, Osaka and Ehime prefectures, while "Rural" includes those in all other prefectures. "Regional banks" include both first- and second-tier regional banks

clients. Personnel evaluations that place utmost emphasis on lending may be leading to lost opportunities for strengthening consulting functions.

Next, to further analyze hypotheses (2) and (3), Fig. 5.4 shows results classified by financial institution type. This indicates that financial institutions that have comprehensive partnerships with municipalities received inquiries on both lending and other matters. On the other hand, urban financial institutions received less inquiries, signifying that rural areas are indeed more influenced by Hometown Tax Donation. Furthermore, looking at the breakdown by institution type, regional banks received more inquiries.

This is probably because credit unions and *shinkin* banks can only serve SMEs with qualified memberships, and relatively larger businesses naturally turn to regional banks. (*Shinkin* banks can only extend loans to businesses with 300 or fewer employees, or with 900 million yen or less in capital stock, and credit unions to businesses with 300 or fewer employees, or with 300 million yen or less in capital stock). With regards to this aspect, it is necessary to conduct an analysis classifying gift providers by attributes including business size. Also, perhaps those seeking counsel expect regional banks to have accumulated more best practices by leveraging their nationwide regional bank network. Meanwhile, all loans were extended by regional banks or *shinkin* banks, and none by credit unions.

It should be noted that all financial institutions that extended new loans triggered by Hometown Tax Donation have comprehensive partnerships with municipalities. Similarly, for additional loans, all but one financial institution had comprehensive partnerships with municipalities in place. Also, such loans were all executed by financial institutions in rural areas, and none in urban areas. This suggests that since the main players of Hometown Tax Donation are municipalities, financial institutions actively support local businesses in regions that have a foundation for industry-government-banking collaboration, rather than based on the conventional framework of business-to-bank. Admittedly, it is too early to generalize these results, since although 70% of the respondents have comprehensive partnerships with municipalities, the number of samples of new or additional loans is small. However, it is important for regions that do not have comprehensive partnerships with regional financial institutions to set up such partnerships, and subsequently or simultaneously attempt to participate in Hometown Tax Donation.

In other words, regional financial institutions that have comprehensive partnerships with municipalities can be regarded as having reinforced their financial role through Hometown Tax Donation, and as such, hypotheses (2) and (3) are valid in those regions. Also, in terms of institution type, hypotheses (2) and (3) seem to apply to some regional banks and *shinkin* banks.

Matsuzaki (2014) pointed out that "Hometown Tax Donation can be leveraged as a catalyst for local governments and *shinkin* banks to collaborate in revitalizing the region, including expanding sales channels of or promoting local goods, or marketing the local community through intra-regional collaboration." However, our research revealed that regional financial institutions are not yet effectively taking advantage of such opportunities. In this respect, municipalities must actively encourage involvement by regional financial institutions.

5.4 Political Implications from This Analysis

In this chapter, we examined the impact of Hometown Tax Donation on intra-regional industry-government-banking collaboration based on a cross analysis of a survey to regional financial institutions. A decade has passed since Hometown Tax Donation was launched in Japan, and its impact on local communities has been rising accompanying the expansion of its market size. Not all municipalities benefit equally from the system since it involves transfer of funds from urban to rural areas and is designed to encourage competition among municipalities. Furthermore, Japan must seek an optimal solution on its own since the system is unlike any other in the world. This research examined whether Hometown Tax Donation could potentially serve as a catalyst for enhancing the role of regional financial institutions—a major issue also acknowledged by the Japanese government. Three policy implications were identified.

First, nearly 40% of the regional financial institutions had received inquiries from gift providers about lending, but lending has not necessarily increased. This may be because regional financial institutions are taking a wait-and-see stance toward the system, or because businesses seeking loans are not creditworthy. Also, over 30% of the regional financial institutions received inquiries on business matters other than loans. This presents a great business opportunity for regional financial institutions which are expected to enhance their consulting roles, and Hometown Tax Donation creates a contact point for local businesses and financial institutions. However, regional financial institutions are not gaining momentum as a whole to actively take advantage of such opportunities, and intra-regional industry-government-banking collaboration has not been accelerating either. This is an issue that needs to be addressed going forward.

Second, even under such circumstances, regional financial institutions that have comprehensive partnerships with municipalities are offering new or additional loans triggered by Hometown Tax Donation, and also had a higher ratio for receiving inquiries about lending and other matters. This is consistent with Bank of Japan's statement (2015) that industry-government-academia-banking collaboration bolsters the viability of regional development.

Third, although regional financial institutions acknowledge that Hometown Tax Donation raises local businesses' motivation for new product development, boosts their design capabilities, helps improve employee satisfaction, and also contributes to regional branding and city marketing, they do not see the scheme leading to migration or settlement, or to an increase in supplies of high-risk funds within the region. This also signifies that regional financial institutions are not fully leveraging business opportunities generated by Hometown Tax Donation.

In our research, 45.5% of the respondents believed that Hometown Tax Donation promotes intra-regional industry-government-banking collaboration; however, it was also revealed that such collaboration has not yet been achieved. The policy implication from such results is that regional financial institutions may be taking a wait-and-see stance in part because the scheme has not earned their confidence. In this respect, however, the law was revised in 2019 to ensure soundness of the system, and therefore, confidence toward the system may have risen relative to when this research was conducted. Meanwhile, Hometown Tax Donation has triggered inquiries from local businesses to regional financial institutions on lending and other business matters, and this may lead to a new business model for regional financial institutions, such as has been proposed by the government and JBA. Even in cases where lending is difficult, it is important that financial institutions contribute to business development through offering information or consulting services to gift providers. Such activities may ultimately induce mainstay loan offerings and result in forging relationships with businesses. In other words, it is important that regional financial institutions perceive Hometown Tax Donation as an opportunity and make a link between intangible support such as business matching or consulting, and their mainstay lending business.

Going forward, it is necessary to conduct research and accumulate individual cases to find out how regional financial institutions are engaged in Hometown Tax Donation. This would allow us to determine whether industry-government-banking collaboration is largely dependent on regional characteristics or contents of comprehensive partnership between municipalities and financial institutions, or if such collaboration can be applied across the board to other regions. Active discussions by municipalities and financial institutions are highly desired.

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