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Lending by Regional Financial Institutions Driven by Hometown Tax Donation and Ensuing Prospects for Intra-regional Industry-Government-Banking Collaboration

Takaaki Hoda[1] and Yuichiro Kubo[2]

Abstract

The purpose of this study is to reveal the current state of intra-regional lending by financial institutions prompted by Hometown Tax Donation, and to explore the ensuing prospects for intra-regional collaboration among businesses, governmental organizations and financial institutions. To achieve this end, we surveyed regional financial institutions across Japan, and found that although a significant number of financial institutions expect Hometown Tax Donation to promote industry-government-banking collaboration, few have actually extended loans, while many are taking a wait-and-see stance. The survey also revealed that while regional financial institutions recognize that Hometown Tax Donation can contribute to local businesses and economies, for example, through raising local businesses' incentives for new product development and enhancing their designing capabilities, or through "city marketing," they do not foresee a rise in migration/resettlement or lending. Meanwhile, it was revealed that most regional financial institutions that extended new or additional loans to gift providers—local businesses providing gifts in return for Hometown Tax Donations—had comprehensive partnerships with municipalities. Thus, for Hometown Tax Donation to contribute to regional development, collaboration between municipalities and financial institutions is essential, and the scheme itself should be enhanced so that it would gain the confidence of regional financial institutions.

1. Introduction

Recently, the Japanese government has been committed to regional development, and in 2014, it set up the Headquarters of Overcoming Population Decline and Vitalizing Local Economy in Japan to oversee this initiative. Revitalizing regional economies requires intra-regional circulation of people, products and capital. In particular, boosting profitability of local companies is imperative, and thus, the role of regional financial institutions becomes crucial. With this in mind, the Headquarters of Overcoming Population Decline and Vitalizing Local Economy in Japan conduct an annual monitoring survey targeting financial institutions across Japan to assess how engaged they are in regional development. The survey aims to understand current initiatives taken by financial institutions, who

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serve a major role in regional industries and finance, and to share exceptional cases, thereby enhancing partnerships between municipalities and financial institutions, and advancing/reinforcing national strategies.

The Financial Services Agency (FSA), also concerned about this issue, monitors regional financial institutions' revenues and activities in their annual *Financial Report*. The report draws attention to the need to re-examine the sustainability of conventional business models adopted by regional financial institutions[3], while also pointing out that regional financial institutions can secure their own revenues and help revitalize the regional economy by better understanding local companies' businesses and providing advice and financing that boost corporate value. The report also introduces several best practices.[4]

Based on such awareness, the FSA set the "Benchmarks for Bank's Financial Intermediary Function" in September 2016—diverse measures that objectively assess the effectiveness of financial institutions' intermediary functions. The first common benchmark is "to improve businesses and enhance growth capabilities of client companies." Therefore, if client companies providing gifts in return for Hometown Tax Donations are undergoing positive changes, financial institutions should be taking notice. Another benchmark is "to commit to the local community and cultivate relationships with local companies."[5] This benchmark should improve if regional financial institutions are increasingly offering gift providers various services and advice. In other words, these common benchmarks could improve, whether intentionally or not, if regional financial institutions are engaged with gift providers. Reversing the perspective, Hometown Tax Donation could be regarded as a solution for regional development if it serves to reinforce relationships between local businesses and financial institutions. Based on such assumptions, we conducted a research targeting regional financial institutions across Japan on the current state of lending driven by Hometown Tax Donation, and the ensuing prospects for industry-government-banking collaboration. It is however important to note that the scale of impact should be discounted if changes in relationships between local gift providers and financial institutions are driven by temporary government-controlled demand or is system-dependent.

While there are various arguments for and against the Hometown Tax Donation scheme, this report is not intended to discuss the pros and cons of the scheme, but rather, to understand the effect it has on lending and how it is perceived by regional financial institutions. The report also makes proposals for improving the scheme.

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[3] It has been pointed out that profits gained by financial institutions from their customer service businesses—their main source of revenue—have trended lower due to changes in the environment, e.g., a declining population and low interest rates. Terasaki (2012) goes one step further to argue that regional financial institutions are investing surplus funds that could not be extended as loans, in securities such as government bonds with lower yields, leading to a further decline in loan-to-deposit ratio and rise in securities-to-deposit ratio, which in turn causes revenues to decrease and interest rate risks to increase.

[4] *Financial Report (2016)*, FSA, October 2017.

[5] The benchmark includes such measures as trends in the number of local clients, the number of clients per corporate sales representative, and average number/length of client meetings.

2. Discussions and Prior Studies regarding Hometown Tax Donation

According to the Ministry of Internal Affairs, the number of Hometown Tax Donations received in 2016 was 12.71 million with the total amount reaching 284.4 billion yen. This scheme allows individuals to donate part of their inhabitant tax to a municipality or municipalities of their choice rather than paying that amount as tax to where they reside.[6] The amount donated, aside from 2,000 yen, is subject to tax deduction, effectively costing the donor only 2,000 yen.[7] Furthermore, donors generally receive reciprocal gifts from the municipality to which they made donations. The scheme was designed in view of its vision and purposes, with the vision being to achieve sustainable regional development, and the three purposes being: firstly, to raise taxpayers' awareness through selecting the destination of their donation; secondly, to function as a fund for supporting local communities; and thirdly, to promote competition among municipalities.[8] On the one hand, there is some criticism toward the scheme, including the view that it causes unnecessary transfer of tax revenue between local communities, thereby distorting the basis of inhabitant tax, or that reciprocal gifts can be regarded as direct purchases by municipalities using public money. In particular, there are negative views regarding overly expensive or cashable reciprocal gifts, since their purchase is funded by tax. In response to such criticism, the Minister of Internal Affairs and Communications released a notice in April 2017 stating that the value of reciprocal gifts should be kept below 30% of the amount donated, and to refrain from providing gifts that can be exchanged for cash (e.g., gift certificates or electronic money) or that serve as assets (e.g., electronic devices or furniture). On the other hand, there are positive views regarding the scheme as an effective solution for regional development.

Against this backdrop, prior studies were mainly conducted with an aim to offer policy proposals or implications for improving the scheme. Studies by Hoda and Yasui (2016) and Hashimoto and Suzuki (2016) were conducted to understand the framework and current state of Hometown Tax Donation, sort out the key issues, and propose improvements to the scheme. Suzuki and Hashimoto (2017) argued that it is necessary to suppress the overheated competition between municipalities to offer attractive reciprocal gifts. Other studies include Nishimura and Seta (2017), Nishimura, Ishimura and Akai (2017) and Hoda (2016) which summarize individuals' incentives and motives for taking part in Hometown Tax Donation. Yet, none of these prior studies explicitly examine the effects that the scheme has on regional development. At a micro level, Hoda (2017) introduces cases where local businesses were successfully fostered through Hometown Tax Donation, and Matsuzaki (2014)

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[6] Also applies to income tax in some cases. For details on the transfer of tax through Hometown Tax Donation, refer to Hashimoto and Suzuki (2016).

[7] There is an upper limit to the deductible amount—usually 20% of one's inhabitant tax; however, the amount can vary depending on one's income and income tax rate. For details, refer to the Ministry of Internal Affairs' "Hometown Tax Donation Portal Site" (Japanese only).

[8] Ministry of Internal Affairs' "Hometown Tax Donation Portal Site" (Japanese only).

introduces the case of Kitakami Shinkin Bank (Kitakami City, Iwate Prefecture) promoting local industry-government-banking-collaboration through Hometown Tax Donation. However, it has not been verified whether such developments are taking place across the country. This report examines the extent to which the scheme is triggering industry-government-banking collaboration around Japan, as in the case of Kitakami Shinkin Bank. If similar developments can occur on a national scale, Hometown Tax Donation has the potential to become a solution to aforementioned issues that regional financial institutions and rural areas are facing.

3. Research Method and Contents

We sent out the survey via postal mail to corporate sales executives of all credit unions, *shinkin* banks (cooperative financial institutions serving local small- and medium-sized companies), and first- and second-tier regional banks in Japan.[9] The questionnaires were sent on August 17, 2017 (to 487 institutions), receiving 165 responses by September 30. The response rate was 33.9%, with the highest rate from *shinkin* banks (36.7%), followed by credit unions (35.0%), second-tier regional banks (28.5%) and first-tier regional banks (23.4%).[10] These numbers suggest that *shinkin* banks and credit unions have a stronger interest in this topic. Looking at the response rate by prefecture, prefectures with response rates one or more standard deviation higher than the national average were Yamanashi, Wakayama, Shimane, Kagawa, Tokushima, Oita, Saga and Kumamoto, while those with response rates one 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 taxes from urban to rural areas. As such, we envisioned the response rate to be lower in urban areas and higher in rural areas in support of the scheme; however this was not the case. Among the urban areas, while the response rate was indeed low in Saitama and Chiba, it exceeded the national average in Tokyo, Ehime and Osaka, reaching 40.5%, 40.9% and 35.0% respectively; hence no extreme deviation was identified between urban and rural areas.

The survey consisted of 27 questions, first asking each financial institution about their current state of lending and presence of comprehensive partnership with local municipalities, and then checking for any initiatives related to Hometown Tax Donation and their expectations toward industry-government-banking collaboration resulting from the scheme. The analysis method consisted of simple tabulation, cross tabulation and *t*-test. We also conducted a detailed analysis on lending associated to the scheme by classifying the financial institutions according to presence of comprehensive partnerships with municipalities, urban/rural areas, and institution types.

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9 We excluded credit unions targeting specific business types such as doctors credit unions.

10 The breakdown of number of responses was: 97 from *shinkin* banks (58.7%), 41 from credit unions (24.9%), 15 from first-tier regional banks (9.1%) and 12 from second-tier regional banks 12 (7.3%). (The ratio to the total number of responses shown in parenthesis.)

4. Analysis Results and Discussion

4.1 Overview of Respondents

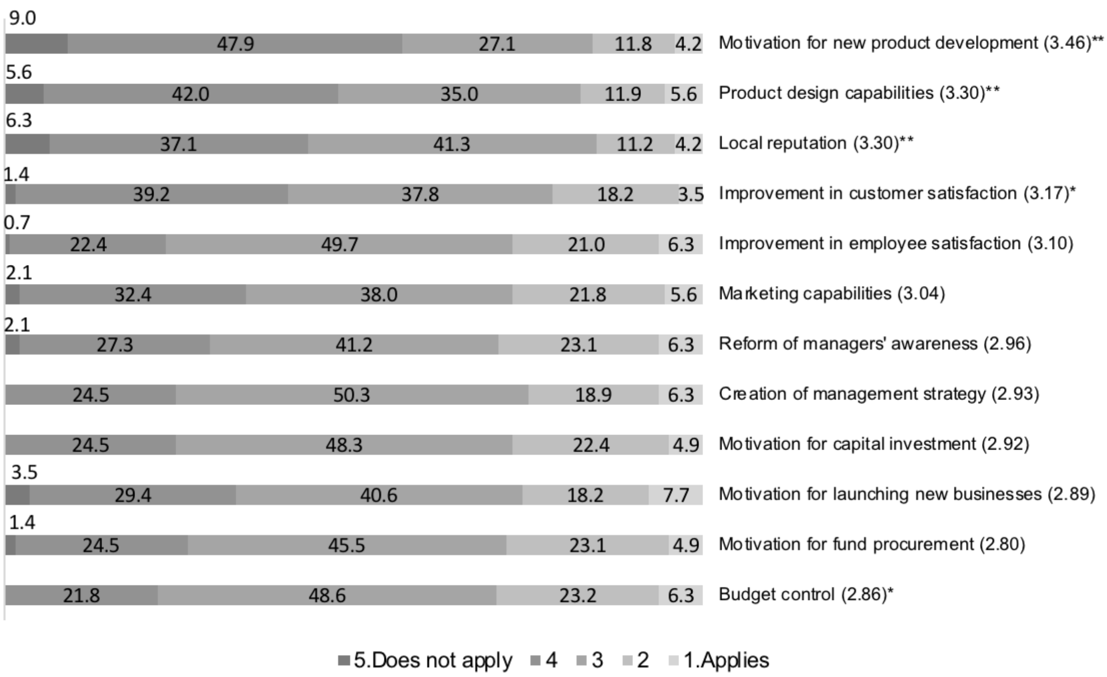
With regards to institutional framework, 70.9% of the financial institutions had comprehensive partnerships or similar frameworks with local municipalities in place. As for whether they thought Hometown Tax Donation enhanced comprehensive partnership, 4.9% responded that it did and 10.6% responded that it most likely would going forward. 65.5% responded that they had a liaison officer dedicated to regional development. As for whether they thought Hometown Tax Donation accelerated or reinforced the setting up of teams or liaison officers dedicated to regional development, 1.7% responded "Yes" and 5.9% responded "Slightly." These results show that not a lot of financial institutions think that Hometown Tax Donation enhances intra-regional partnerships between financial institutions and municipalities. It was also revealed that Hometown Tax Donation has hardly had any impact on institutional frameworks. Meanwhile, over 40% responded in the affirmative to the question of whether they thought the scheme contributed to establishing or fortifying municipalities' regional comprehensive strategies. This implies that regional financial institutions seem to recognize to a certain extent that Hometown Tax Donation serves as a supportive tool for better fulfilling their roles, taking into account that the expected role of regional financial institutions is "to support creating regional comprehensive strategies" in the short run, and "to promote comprehensive strategies" and "to comprehensively support local businesses" in the long run (Kimura, 2005).

4.2 Perception of the Impact that Hometown Tax Donation has on Local Businesses and Economies

Prior studies have revealed that Hometown Tax Donation impacts local communities, including higher interest toward local communities (Nishimura and Seta, 2017), expansion of networks (Kato, 2010), and enhanced business capabilities of local gift providers, e.g., development of packaging, product designs and new products, and shifts in distribution channels (Hoda, 2017). Meanwhile, in a study by Yamori et al. (2017), 85% of the financial institutions responded that the area they want to strengthen in terms of partnerships with municipalities is "enhancing management capabilities of small- and medium-sized companies." If Hometown Tax Donation actually bolsters management capabilities of small- and medium-sized companies, then one can argue that it is indeed contributing to intra-regional industry-government-banking collaborations. Accordingly, in this research, we asked respondents to select an answer from four choices for questions regarding the impact of Hometown Tax Donation on their local community: "1. Agree," "2. Slightly agree," "3. Slightly disagree" and "4. Disagree." Furthermore, "1. Agree" and "2. Slightly agree" were categorized as "effective," while "3. Slightly Disagree" and "4. Disagree" were categorized as "ineffective." Results showed that regional financial institutions acknowledge that Hometown Tax Donation has a certain degree of impact on the local community, with 45.7% responding that is "effective" in "promoting intra-regional industry-government-banking collaborations." Conversely, only 14.7% responded that it is "effective" in "raising loan-to-deposit ratio" and 3.7% that it is "effective" in "contributing to starting up new businesses." This suggests that while regional financial institutions expect industry-government-banking collaborations to be promoted, they do not yet foresee visible effects such as an increase in loan-to-deposit ratio or startups.

We also asked respondents to rate the extent to which they thought gift providers' skills or capabilities were enhanced on a scale of one to five. Results are shown in Table 1. Similarly, Table 2 shows the extent to which respondents thought Hometown Tax Donation contributed to regional development.

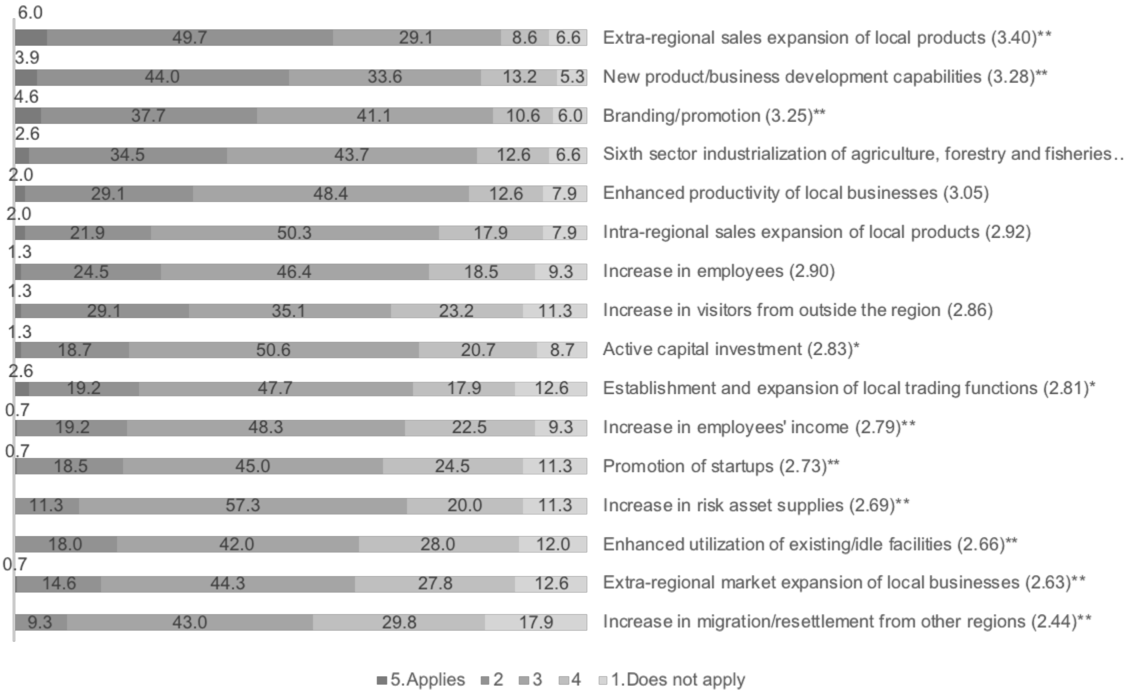
Table 1: Impact of Hometown Tax Donation on Enhancing Gift Providers' Business Capabilities (from the perspective of regional financial institutions)



Note: The number of responses varies between questions since some were unanswered; however, all questions received 145 or more responses. Respondents were asked to rate each category on a scale of 1 to 5 in 1-point increments. The average is shown in parentheses. Categories marked with "**" and "*" are those with significant differences of 1% and 5% levels from the median of 3 points in the *t*-test.

While it would be necessary to conduct a separate survey targeting local businesses and municipalities to validate the actual effects, Table 1 indicates that regional financial institutions perceived a rise/improvement in gift providers' motivation for developing new products, product design capabilities, local reputation and customer satisfaction. Table 2 shows that the scheme affected local communities through "city marketing" driven by extra-regional sales expansion. One might imagine then, that the scheme would also have a positive effect on migration/resettlement; however, respondents were sceptical on this front. In short, regional financial institutions perceive Hometown Tax Donation as having a certain degree of impact on local businesses and economies, yet not leading to migration/resettlement, or an increase in supply of risk assets—their core business domain. With regards to an increase in risk assets, the response rate for “effective” was low similar to that for the aforementioned loan-to-deposit ratio.

Table 2: Impact of Hometown Tax Donation on Regional Development
(from the perspective of regional financial institutions)



Note: The number of responses varies between questions since some were unanswered; however, all questions received 145 or more responses. Respondents were asked to rate each category on a scale of 1 to 5 in 1-point increments. The average is shown in parentheses. Categories marked with “**” and “*” are those with significant differences of 1% and 5% levels from the median of 3 points in the *t*-test.

4.3 Stance and Current State of Lending to Gift Providers

As for the lending stance of regional financial institutions to gift providers, approximately one out of five (20.8%) responded that they “intend to actively extend loans.” Meanwhile, less than 2% responded that they “are cautious about lending in apprehension of backlash accompanying the possible termination of Hometown Tax Donation.” Approximately half (47.2%) responded that they “will consider the possibility of lending working capital while keeping a close watch on regulation tightening by the government.” Many of the financial institutions that responded "Other" commented that their lending stance hasn’t changed.

We also asked about their screening stance. There are views fearing that loans will become non-performing if the Hometown Tax Donation scheme is terminated from some reason. We assumed such sentiment might influence screening and lending stances. However, in our survey, only 5.2% responded that they would "tighten screening standards for new or additional lending" to gift providers. Meanwhile, 23.4% responded that they would "tighten screening standards only for capital investment lending" and 46.1%—approximately half—responded that they would "maintain their current screening standards." Additionally, many who responded "Other" mentioned that they would maintain their current screening stance. This means that regional financial institutions are not necessarily tightening screening standards against gift providers, but approximately one out of four respondents are cautious about capital investment.

Next, we examined the actual lending landscape. 5.0% of the respondents had acquired new customers and extended new loans to them, and 7.2% had provided additional loans to existing clients prompted by Hometown Tax Donation.[11] In other words, the scheme has not triggered a large increase in lending. Meanwhile, 39.6% of the respondents had been asked by gift providers for counsel on cash flow, while 32.1% had been asked for counsel on matters other than cash flow (e.g., product development, production framework and marketing methods).

In short, while 40% were asked by gift providers for counsel on lending, less than 10% of such cases led to actual lending. This is consistent with results of the previous section suggesting that regional financial institutions were skeptical about Hometown Tax Donation prompting an increase in supply of risk assets. Nonetheless, the fact that inquiries about lending are increasing should pose great business opportunities for regional financial institutions which are facing challenges in increasing lending volume and loan-to-deposit ratio. How then can we interpret the fact that such inquiries have not led to actual extension of loans? One assumption is that this is due to the time lag between when financial institutions provide counsel and when loans are actually extended. However, this does not seem to be the case, since as mentioned, only a small portion of regional financial institutions foresee an increase in lending. In addition, they are not necessarily tightening their lending or screening stances. One can interpret from the survey results thus far, that regional financial institutions are taking a wait-and-see stance on lending to gift providers.

It is worth noting that over 30% of the respondents were asked for counsel on matters other than cash flow. In 2016, the Japanese Bankers Association (JBA) proposed three expected roles of financial institutions in the area of regional development, based on a comprehensive view of the government's recent initiatives on this topic: firstly, to nurture talents who can identify business opportunities; secondly, to actively excavate companies' needs; and thirdly, 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 the three roles proposed by the

[11] We verified whether financial institutions that responded that they "would actively lend" in the query above were the ones actually providing new or additional loans, but the correlation was low. Of those that responded that they "would actively lend," only 6.1% extended new loans, while 12.5% extended additional loans.

JBA. To what extent are regional financial institutions leveraging this opportunity? When considering Hometown Tax Donation as a solution to regional development, it is of great significance that the scheme is prompting regional financial institutions to actively provide advice and support to local businesses on expanding sales channels, improving businesses, developing products and enhancing productivity. Nevertheless, such advice and support do not seem to be bearing fruit considering the lending landscape and awareness of regional financial institutions revealed above.

Table 3 shows the analysis results classified by financial institution type.

Table 3: Lending by Regional Financial Institutions and Inquiries from Local Businesses Triggered by Hometown Tax Donation

		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%**

Note: "Urban" includes financial institutions in Tokyo, Kanagawa, Saitama, Chiba, Osaka and Ehime, while "Rural" includes those in all other prefectures. "Regional banks" include both first- and second-tier regional banks.

Table 3 shows that financial institutions that have comprehensive partnerships with municipalities tended to receive more inquiries on both lending and other matters. Meanwhile, financial institutions in urban areas received less inquiries, suggesting that rural areas are indeed more affected by Hometown Tax Donation. Looking at the breakdown by institution type, regional banks received more inquiries. This is most likely because Hometown Tax Donation is a nationwide scheme, and thus, local businesses have higher expectations toward regional banks which serve wider markets than credit unions or *shinkin* banks, and have access to nationwide regional bank networks and best practices. Furthermore, since credit unions and *shinkin* banks can only serve small- and medium-sized companies that are qualified union members, relatively larger businesses have no choice but to consult regional banks. To validate this assumption, it is necessary to conduct an analysis classifying gift providers by business size.

Importantly, all financial institutions that acquired new clients and extended new loans prompted by Hometown Tax Donation have comprehensive partnerships with municipalities. Similarly, for additional loans, all but one financial institution had comprehensive partnerships in place. This suggests that since the main players of Hometown Tax Donation are municipalities, financial institutions tend to actively support local businesses if there is a foundation for industry-government-banking collaboration in their community, rather than based on a conventional industry-banking relationship.[12] Admittedly, it is too early to generalize these results since while 70% of the respondents have comprehensive partnerships with municipalities, the number of samples for new/additional loans is small. Nonetheless, it is important for local communities that don't have such comprehensive partnerships in place, to set up partnerships and subsequently or simultaneously participate in Hometown Tax Donation. It should also be noted that all such loans were extended by financial institutions in rural areas, namely by *shinkin* and regional banks, and none by credit unions.

A report released in 2014 by Shinkin Chuo Kinko states that "it is possible to utilize Hometown Tax Donation as a trigger for municipalities and *shinkin* banks to collaborate in revitalizing the region, including expanding sales channels or promoting local goods, or promoting the local community through intra-regional collaboration." However, this research revealed that regional financial institutions are not yet leveraging such opportunities. In this respect, municipalities must actively encourage regional financial institutions to get involved.

4.4 Financial Institution's Perception of Hometown Tax Donation

Hometown Tax Donation frequently becomes a subject of controversy; hence, we also asked regional financial institutions their perception on such controversial topics. Firstly, regarding the "gift-to-donation ratio" proposed by the government, which is 30% or less, 38.5% responded that this was adequate, 6.8% that it should be slightly higher, 18.7% that it should be slightly lower, and 36.0% that they were not sure, implying that most are satisfied with the current level. Secondly, when asked whether they thought municipalities should decide the gift-to-donation ratio, 60.9% responded that "the government should set a certain range, and municipalities should have the discretion to determine the actual ratio within that range." Thirdly, when asked about their view on the Ministry of Internal Affairs and Communications regulating the provision of expensive gifts including electronics and jewelry, 57.4% responded that such gifts "should partially be allowed depending on regional characteristics or degree of merits to local businesses." This implies that regional financial institutions have a more accommodative view toward varying regional characteristics and circumstances in gift provisions. Lastly, regarding gift provision itself, only 3.8% responded that it "should be banned," while 71.3% responded that it "does not pose a problem." This implies that regional financial institutions believe that provision of gifts contributes to the local economy. We also analysed the responses by classifying financial institutions into urban/rural areas, since there is stronger criticism

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[12] In a query about excavating gift providers of Hometown Tax Donation, close to 15% responded that they were engaged in such activities. Looking at the breakdown, financial institutions that have comprehensive partnerships with municipalities tend to be more actively engaged.

toward the scheme in urban areas; however, no significant difference was identified.

5. Conclusion

In this paper, we examined the impact of Hometown Tax Donation on intra-regional industry-government-banking collaboration based on a survey to regional financial institutions. A decade has passed since the scheme was launched, and its impact on local communities has been rising steadily owing to the expansion of its market size. Admittedly, not all local communities or municipalities benefit equally from the scheme since it involves transfer of tax from urban to rural areas and is designed to encourage competition among municipalities. Moreover, Japan needs to seek a proprietary, optimal framework since the scheme is unprecedent even from a global standpoint. This research examined whether Hometown Tax Donation serves or could potentially serve as a catalyst for reinforcing regional financial institutions' functions—a vital challenge acknowledged by the Japanese government. Three policy implications were acknowledged:

Firstly, Hometown Tax Donation is not necessarily triggering an increase in lending by regional financial institutions. Regional financial institutions' lending and screening stances are mostly neutral toward deals related to the scheme, and not much different from other deals. Instead, results showed that regional financial institutions are taking a wait-and-see stance toward the scheme itself. Meanwhile, close to 40% of the respondents received inquiries about lending from local businesses providing gifts in return for Hometown Tax Donations, and a little over 30% about business matters other than lending. This presents a great business opportunity for regional financial institutions who are expected to enhance their consulting capabilities, and it seems that Hometown Tax Donation is serving as a common ground for local businesses and financial institutions. However, there is no momentum among financial institutions to actively leverage such opportunities, and intra-regional industry-government-banking collaboration has not accelerated either. This is a crucial challenge going forward.

Secondly, despite the overall landscape mentioned above, regional financial institutions that have comprehensive partnerships with municipalities are offering new/additional lending triggered by Hometown Tax Donation, and also have a higher ratio for receiving inquiries about lending and other matters. This is consistent with Bank of Japan's statement (2015) that industry-government-banking collaboration bolsters the viability of regional development.

Thirdly, while regional financial institutions acknowledge that Hometown Tax Donation enhances local businesses, including raising motivation for new product development, boosting design capabilities, increasing employee satisfaction, and contributing to branding/marketing of the local community, they do not see the scheme leading to migration/resettlement, or an increase in risk asset supplies within the region.

While 45.5% of the respondents believe that Hometown Tax Donation could promote intra-regional industry-government-banking collaboration, survey results revealed that such effects have not yet materialized. This implies that regional financial institutions are taking a wait-and-see stance toward the policy itself, partially because the scheme has not earned their trust. Thus, it is necessary to gain the confidence of financial institutions on the scheme's continuance. On another front, Hometown Tax Donation has triggered inquiries from local businesses to regional financial institutions on lending and other business matters. This may lead to the creation of a new business model for regional financial institutions, such as has been proposed by the government and JBA.

Going forward, individual cases need to be examined 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 respective, regional characteristics or specific contents of comprehensive partnerships between municipalities and financial institutions, or if such collaboration can be applied across the board to other regions. If the impact of Hometown Tax Donation on intra-regional industry-government-banking collaboration shows no significant progress hereafter from current levels, this may imply that the scheme lacks evidence validating its significance. Municipalities and financial institutions should ideally engage in active discussions.

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