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Takaaki Hoda

Richard B. Dasher

# Local Tax Benefits at a Distance

Japan's Hometown  
Tax Donation  
Payment



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Japan's Hometown Tax Donation Payment

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# Introduction

This book explores the remedies necessary for regional revitalization with a focus on Japan's unique Hometown Tax Donation system. In particular, the study is centered around the analysis of the system's effect on financing and peripheral areas. In the past, the major financing scheme for regions was to write up a document requesting subsidies from the central government (i.e., Kasumigaseki), and to thereby secure a budget. However, the national government no longer has financial leeway. Japan's national debt has risen to some 2.3 times its GDP (according to documents by the Ministry of Finance)—the worst level among major advanced countries. In the case of companies, financing options have included equity financing, bank loans, and corporate bond issuance (i.e., loans from investors), and in recent years, crowdfunding—a financing method of collecting small funds from numerous individuals via the Internet—has also advanced. In an increasing number of such crowdfunding projects, individuals not only provide funds but also engage in and support the company in various ways, including purchasing their goods and services or supporting their marketing activities. Hometown Tax Donation, the main topic of this book, can be considered crowdfunding by municipalities. This unique financing method used by regions also provides secondary effects of exposing local goods to the national market. Moreover, it serves to resolve social issues. Through analyzing this unique system, this book aims to provide implications for policies necessary to revitalize regions.

Japan must aim to bolster the circulation of people, goods, and capital between rural and urban areas, and to do so, rural areas need to enhance their capabilities for selling goods and raise regional attractiveness to encourage people to visit. The former requires raising attractiveness and quality of goods, which in turn demands increased productivity and investment capacity (i.e., financing capabilities) of local businesses. The latter requires an increase in associating and visiting population, or in short, sharing of people. Following the novel coronavirus pandemic, workers no longer need to stay put in one place. In fact, popularity will likely rise in the style of working from rural areas for a certain period of time, and from urban areas for the rest. “Workcation” is one such example. Meanwhile, pupils and students attending

school are not yet provided with such flexible educational environments. However, this issue will no doubt draw attention as one that needs to be resolved sooner or later.

The author visited and examined various regions across Japan for academic research purposes, and had very meaningful experiences in all such regions. Meanwhile, it is well known that rural areas are deteriorating without an end in Japan because of an aging society with declining birthrate as well as urbanization, and in order to halt such deterioration, it is necessary to revitalize rural, economic, and consumption activities. In particular, Japan faces one of the most severe population declines in the world. Going forward, other advanced countries will also face the same issues of aging societies with declining birthrates, urbanization, and population declines.

# Contents

<b>1</b>	<b>Time for Regional Areas to Incorporate Management Perspectives in Pursuit of a Sustainable Society</b>	<b>1</b>
1.1	Shifting from Regional “Administration” to “Management”	1
1.2	Why is Regional Revitalization Difficult?	2
1.3	High-Risk Funds Previously Limited in Regions	3
1.4	The Emergence of New Alternative Financing Methods (Social Finance)	4
	Reference	6
<b>2</b>	<b>Overview of Hometown Tax Donation and the Challenge It Poses to Municipal Administration—Paradigm Shift in Municipal Administration: Incorporating Management Perspectives</b>	<b>7</b>
2.1	Overview of Hometown Tax Donation	7
2.1.1	Backdrop and History Behind the Creation of Hometown Tax Donation	8
2.1.2	Virtual Transfer of a Portion of Tax Between Regions	8
2.1.3	Dispute Between Rural Areas Receiving Benefits and Urban Areas Facing Revenue Outflow	9
2.1.4	“Gifts” in Hometown Tax Donation: A Core Driver of Regional Revitalization (The Focus of This Book)	10
2.2	Paradigm Shift in Municipal Administration: From “Administration” to “Management”	12
2.2.1	A Framework Where Funds Are Secured Through Excellent Marketing	13
2.2.2	Difficulty in Marketing, Specific to Municipalities	13
2.2.3	Future Investment—Uncharted Land for Municipalities	14
2.2.4	Who Are Municipalities’ Customers in Present Times?	14
2.3	Institutional Issues Involved in Hometown Tax Donation: Total and Partial Optimization	15
2.4	Various Discussions Regarding Hometown Tax Donations	16
	Reference	17

**3 Effects of Fostering Local Businesses and Measures for Enhancing Business Capabilities: —Based on Case Studies on Hometown Tax Donation Gift Providers . . . . . 19**

3.1 Conventional SME Policies Centered on Subsidies and Grants . . . . . 19

    3.1.1 Current State of Local SME Policies . . . . . 19

    3.1.2 Toward Improving Management Capability Indices of Local SMEs . . . . . 20

3.2 Structural Characteristics of Hometown Tax Donation—From the Perspective of SME Support . . . . . 20

    3.2.1 Three Structural Characteristics . . . . . 20

    3.2.2 Difference Between Subsidy Policies and Hometown Tax Donation Gifts . . . . . 21

    3.2.3 Runup (Fostering) Market: Promoting Launch of Companies and New Businesses . . . . . 21

    3.2.4 Collaborative Efforts Between Public and Private Sectors . . . . . 22

    3.2.5 Implications for SME Policies . . . . . 22

3.3 Case Studies on Businesses that Enhanced Their Management Capabilities Through Providing Gifts . . . . . 23

    3.3.1 Case Studies on Upgraded Product Visual . . . . . 24

    3.3.2 Changes in Distribution Channels and Business Styles . . . . . 25

    3.3.3 Case Studies of New Product Development, Entry into New Businesses, and Launch of Startups . . . . . 26

    3.3.4 Impact on Employment of Persons with Disabilities . . . . . 29

3.4 Key to Launching Local Companies or New Businesses Through Public–Private Partnerships . . . . . 30

    3.4.1 Operational Support Impacts SMEs . . . . . 30

    3.4.2 How to View Sixth Industrialization . . . . . 30

    3.4.3 Promoting Launch of Local Companies or New Businesses by Creating a Market (Demand) in Advance . . . . . 31

3.5 Challenges in Fostering Local Businesses . . . . . 32

References . . . . . 33

**4 With a View Toward Initiating Regional Entrepreneurship—Based on Data Analysis and Survey Research of Hometown Tax Donation Gift Providers . . . . . 35**

4.1 The Need to Grasp the Current State of Hometown Tax Donation Gift Providers . . . . . 35

4.2 Method of Survey Research on Gift Providers’ Attributes and Improvement in Their Management Capabilities . . . . . 36

4.3 Attributes of Gift Providers . . . . . 37

    4.3.1 Size of Gift Providers . . . . . 37

    4.3.2 Breakdown of Gift Providers’ Revenues . . . . . 39

    4.3.3 Gift Revenue by Amount and by Ratio to Total Revenues . . . . . 41

    4.3.4 Summary of Attributes of Gift Providers . . . . . 43

- 4.4 Survey Results Regarding Enhancing Management Capabilities of Gift Providers ..... 44
  - 4.4.1 Changes in Gift Providers ..... 44
  - 4.4.2 Impact on Regional Investment and Lending ..... 48
  - 4.4.3 Effects from Matching Interests Between Municipalities and Businesses ..... 49
- 4.5 Implications for and Challenges of Initiating Regional Entrepreneurship Based on Survey Research ..... 50
- References ..... 52
- 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 ..... 53**
  - 5.1 Prospects for Regional Development Through Industry-Government-Banking Collaboration ..... 53
  - 5.2 Cases of Industry-Government-Banking Collaboration Driven by Hometown Tax Donation Gifts ..... 54
  - 5.3 Survey Research Targeting Regional Financial Institutions Regarding Industry-Government-Banking Collaboration Triggered by Hometown Tax Donation ..... 56
    - 5.3.1 Overview of Research and Attributes of Respondents ..... 56
    - 5.3.2 Regional Financial Institutions’ Perception of Hometown Tax Donation ..... 57
    - 5.3.3 Perception of Hometown Tax Donation’s Impact on Local Businesses and Economies ..... 58
    - 5.3.4 Stance and Current State of Lending to Gift Providers ..... 60
  - 5.4 Political Implications from This Analysis ..... 63
  - References ..... 65
- 6 Regarding Measures by Rural Areas to Promote Migration and Settlement and Increase Associating Populations—Implications from Various Measures Triggered by Hometown Tax Donation ..... 67**
  - 6.1 Sharing of People is Important Amid National Depopulation ..... 67
  - 6.2 Creating Associating and Interacting Populations Through Hometown Tax Donation ..... 68
    - 6.2.1 Encouraging Experience-Oriented Visits ..... 68
    - 6.2.2 Rural Areas Actively Approaching Donors ..... 69
    - 6.2.3 Creating Opportunities for Citizens to Participate in Machizukuri: Strengthening Local Kizuna ..... 69
  - 6.3 How to Perceive Enhancement of Migration and Settlement Measures ..... 70
    - 6.3.1 Successful Cases Are Few on a National Scale ..... 70

6.3.2	Effects and Pros and Cons of Enhanced Parenting Support Measures	71
6.4	Demographic Analysis of Kamishihoro Town, Hokkaido Prefecture	73
6.4.1	Analysis Method	73
6.4.2	Trend in Population Change of Kamishihoro Town, Hokkaido Prefecture	74
6.4.3	Trend in Number of People Moving to Kamishihoro Town, Hokkaido Prefecture	75
6.4.4	Analysis of Number of People Moving from Kamishihoro Town, Hokkaido Prefecture	78
6.4.5	Summary of Analysis on Kamishihoro Town, Hokkaido Prefecture	80
6.5	Implications for Measures by Rural Areas to Promote Migration and Settlement or Increase Associating Populations	80
	References	81
<b>7</b>	<b>The Role of Social Finance in Resolving Regional Issues—Recent Trends in Japanese Civic Crowdfunding</b>	<b>83</b>
7.1	From Municipality-Initiated to Civic Engagement	83
7.1.1	Regional Issues that Cannot Be Dealt with as Desired	84
7.1.2	Democratization in Securing Budgets Within a Local Government	85
7.2	Distinction in Features and Usage of CF and Hometown Tax Donation	86
7.2.1	Difference in Restrictions of Project Owners and Tax Benefits of Funders	86
7.2.2	Effects on Project Owners	86
7.3	Civic Crowdfunding	87
7.4	Recent Trends in Japanese CCF Using Hometown Tax Donation	88
7.4.1	Overview of Japanese CCF	88
7.4.2	The Current Status of Japanese CCF	89
7.4.3	Using Japanese CCF for Disaster Relief	90
7.5	Collaboration with Private Companies Using Japanese CCF	90
7.5.1	Projects that Succeeded by Creating a Consortium	90
7.5.2	A Framework Where Local Issue Awareness and Active Individuals and Companies Back Up Municipalities	91
7.6	Effects of Japanese CCF on Machizukuri	92
7.7	Potential Issues of Japanese CCF	93
7.7.1	Possibility that Unappealing Projects Have Higher Local Demands	93
7.7.2	Regional Issues Versus Social Issues	93
7.7.3	Pros and Cons of Municipal Involvement	93
7.8	Japanese CCF Implemented Through a Regular CF Platform	94
7.9	Summary: Toward Further Advancement of Japanese CCF	95

References .....	96
<b>8 Implications for Regional Development Drawn from the Hometown Tax Donation System—Aiming to Produce Regional Entrepreneurship .....</b>	<b>97</b>

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# Chapter 1

## Time for Regional Areas to Incorporate Management Perspectives in Pursuit of a Sustainable Society



### 1.1 Shifting from Regional “Administration” to “Management”

Japan is at the forefront of the global trend, particularly among advanced countries, of an aging population with declining birthrate and urbanization. The way Japan responds to and resolves these issues may serve as a remedy for other countries going forward. Among Japan’s policies targeting “regional revitalization” and “regional development,” which seek to establish a sustainable society, this book focuses on Hometown Tax Donations.

Administration policies by rural areas to strengthen or maintain regional platforms using the national budget are no longer valid. Although this model was effective while Japan as a whole was achieving rapid growth, rural areas now need to fortify their independent revenue sources as national growth flattens and falters. Regions can be likened to a nation—they must “export” regional goods and services to earn foreign currency, while also increasing inbound visitors (tourists) and boosting their consumption. Most importantly, regions must suppress population outflow as much as possible. If the local workforce shrinks, productivity and local consumption will drop, leading to an economic slowdown. Accordingly, the remedy for revitalizing or developing regions is to create a scheme where people, goods and capital circulate within rural areas and regions.

Fortunately, we are shifting into a small-business friendly era. Since the Internet now enables small-scale retailing, businesses can start small, and may even develop local hit products if successfully able to create a buzz on social media. Also, from a financing aspect, businesses have less interest payment burden since borrowing rates are nearly zero percent. Furthermore, “social finance,” a category for new financing methods alternative to equity financing and loans, has emerged in recent years. Social finance funds need not be repaid, and are helpful in that, at times, they simultaneously enable capturing customers of goods and services.

In this way, a more accessible business platform for small businesses is developing; however, businesses face difficulty in single-handedly outplaying competitors across Japan and winning business opportunities. Such challenges will require support from municipalities, local trading companies, or other organizations. Also, in the event that small businesses successfully capture business opportunities, they will then aim for business expansion, which will require securing new personnel. Unless regions become attractive places to live in, such new personnel may not be secured, making the scheme incomplete. Thus, it is necessary to develop marketing strategies that promote regional attractiveness. This essentially implies “managing” regions.

## 1.2 Why is Regional Revitalization Difficult?

One characteristic of regional revitalization is that success achieved in one region is not necessarily applicable in another, because each region faces vastly different issues and circumstances. Thus, while accumulating best practices is important, successful cases of revitalization are often led by and dependent on specific central figures. It is therefore important to develop a holistic system that inclusively bolsters all regions, and such a system is the focus of the research presented in this book.

Regional revitalization has been gaining much attention recently, and the “White Paper on Land, Infrastructure, Transport and Tourism in Japan, 2017” reported that approximately one out of four respondents in their twenties seeks “promotion of migration to rural areas including support for living in the countryside.” Such opinions will most likely increase beyond 2020 because of the novel coronavirus pandemic. Yet, migration to rural areas has been slow to progress. This is in part due to the lack of a sustainable system to promote migrations.

In the past, the formula for successful municipal administration was to attract plants of large companies, thereby creating jobs and increasing the local population. However, traditional manufacturers have moved their production overseas, and the manufacturing industrial model itself has changed, shifting toward light manufacturing that requires less human resource. The model of attracting plants to the region are now a thing of the past. What is needed now is to raise the productivity of existing local businesses, or to develop new local businesses and startups. To do so, financing becomes essential. During the phase of Japan’s rapid growth, municipalities could secure abundant revenues with the help of local allocation tax grants, and using such revenues, solidify the base for locals’ living standards and local businesses. However, Japan no longer has leeway in its revenues and thus, rural areas can no longer depend on the central government. While deterioration of rural areas may be avoided with active local business deployment and local consumption, in reality, manufacturers are shifting their production overseas and residents are migrating to urban areas, leaving behind only senior citizens. It is therefore necessary to create remedies and systems of some kind to make regions sustainable.

There has been active discussion lately on Sustainable Development Goals (SDGs) in the realm of company management. “Development” and growth are preconditions

when discussing SDGs in light of company management; however, in the case of rural or regional areas, emphasis is placed on halting deterioration and maintaining or sustaining current levels. In this context, it is necessary to develop a scheme where not only funds are simply procured to deploy businesses but also non-locals become involved as associating or interacting populations, and people, goods and capital, as well as knowledge are constantly exchanged between rural and urban areas. Hometown Tax Donation, the main topic of this book, holds the potential of extending beyond simple financing to accomplish dynamic regional management through creating such associating and interacting populations.

### 1.3 High-Risk Funds Previously Limited in Regions

While companies mostly procure funds through equity financing or bank loans, both methods do not function sufficiently in rural areas in Japan (see 2018 White Paper on Small and Medium Enterprises in Japan, among others). It is difficult for rural projects to capture investments since many venture capitals (VCs) invest heavily in Tokyo-based projects, while equity financing does not suit rural companies since many are not large enough to scale nation-wide and go public. As for loans, while startup support loans and loan security systems have been enhanced, regional financial institutions often hesitate to lend working capital in the following expansion stage.

In this way, opportunities to receive funds, especially high-risk funds, were restricted for small- and medium-sized enterprises (SMEs) and venture businesses in rural areas, as well as social businesses aiming to resolve regional or social issues. However, recent years have seen the emergence of various social finance methods which serve as new financing sources for resolving social issues, and companies have been procuring funds through crowdfunding (CF), social impact investments, and Hometown Tax Donations among other methods (hereafter referred to collectively as “social finance”) to create new businesses or expand existing ones, thereby playing a role in resolving social and regional issues.

Meanwhile, much remains unknown about each social finance method, including their effective usage, constraints in funds if any, and macro flow of funds, demanding further research. The following questions are important from both practical and academic aspects: what kind of businesses are compatible with each financing method; and how effective is social finance relative to conventional financing methods in driving regional entrepreneurship and resolving regional issues (Fig. 1.1).

To revitalize Japan’s economy, it is necessary to revitalize SMEs which support regional economies and account for 99% of all companies in Japan. Regional revitalization requires both community-based business activities and financing which supports such activities. Traditionally, research on such elements were conducted separately; for example, regional revitalization was mostly discussed in the context of theories of SMEs or banking, while startups were discussed in the context of entrepreneurship, focusing on IT unicorns whose market capitalization would reach



**Fig. 1.1** Changes in financing environment of local businesses. *Note* Created by the author

hundreds of billions of yen. However, there have recently been overseas studies that take a multidisciplinary approach by consolidating the two elements, and the following chapters of this book also attempt to adopt this approach whenever possible. For example, CF and Hometown Tax Donation not only enable procuring funds but also serve as tools for expanding sales network across the nation. Local businesses that only serve the community may not be motivated to develop new products as it could erode profitability of existing products. However, CF and Hometown Tax Donation may encourage entrepreneurship among local businesses by providing a new market outside the region. Deploying businesses using these new financing methods can be considered effective particularly in rural areas facing a population decline.

## 1.4 The Emergence of New Alternative Financing Methods (Social Finance)

Such new alternative financing methods which have recently emerged are unique in that they not only enable companies to procure funds but also may be most effective when companies aim to resolve regional or social issues. This is in part owing to the fact that small-lot financing is possible via the Internet. Companies gain support and empathy from individuals, procure funds, and at times, have such individuals engage in their business (e.g., through supporting marketing or PR activities).

Much research has been carried out globally on CF, the leading social finance method. This book therefore omits discussions on CF and instead focuses on Hometown Tax Donation, a social finance method unique to Japan. The next chapter will describe the system's outline, and for now, I will simply state that this system is a policy for revitalizing regional municipalities and businesses by using donations by individuals.

This book first examines the effectiveness of Hometown Tax Donation as an alternative financing method by unveiling its effect on local businesses and economies. Specifically, we explore how effective Hometown Tax Donation is for local businesses in terms of prompting better cash flows and enhancing business capabilities.

In particular, I will clarify whether there is collaboration with regional financial institutions and if so, whether this enhances their contribution to regional economies. I will also unveil how Hometown Tax Donation contributes to community-based activities aimed at resolving regional issues and how it affects demographics, and validate its effectiveness as a regional development policy. While population has increased in some municipalities owing to improved living standards from funds procured through Hometown Tax Donation, it will be necessary to analyze the system's effect on migration and settlement since such demographic trends may translate to erosion of population in neighboring municipalities. Although such analysis is complex since various factors influence demographics, I would like to examine whether the system simply triggers a zero-sum competition among rural areas, or whether it effectively mitigates urbanization and urges the population to shift back to rural areas.

I will also discuss civic crowdfunding (CCF) which are public projects led by citizens, civic organizations including NPOs and NGOs, and at times, rural municipalities. CCF has a strong social aspect, and is driving the shift toward citizen engagement from the financing phase in resolving social and regional issues—an area which was typically handled solely by municipalities. This trend is in response to the tightening of municipalities' budgets and rising demand for budget disclosure, the inclination toward “silver democracy” in which budgets for elderly citizens are prioritized, and the spread of empathy-driven investments by citizens (Stiver et al. 2015). In Japan, we face the same issues, and CCF is mainly carried out using the Hometown Tax Donation scheme.

While Hometown Tax Donation is a system unique to Japan, overseas researchers who I have held discussions with have expressed strong interest in its function for fostering local businesses. According to Global Entrepreneurship Monitor which monitors entrepreneurship activities around the world, the level of Japan's ecosystem for entrepreneurs is among the worst. However, alternative financing methods can contribute largely to venture and local businesses which have limited financing means, and may be the key for developing venture businesses and raising corporate value of local businesses in Japan.

Another alternative financing method is social impact bonds (SIB). SIB is a financing method mainly targeting businesses that aim to reduce future fiscal or expense burden of municipalities, and is innovative in that it is outcome-oriented. SIB was originally launched to use private funds in assessing pilot programs for prophylactic intervention in such fields as healthcare, nursing care and welfare, employment, and education. However, more recently, some SIB projects are also targeting incubation for young people or the long-term unemployed, showing promise that SIB may also be applied in regional revitalization. Yet, since there have only been some 200 cases using SIB worldwide, its optimal usage is still unclear. SIB is valuable as it aims to reduce future costs and introduces the outcome-oriented concept in municipal spending; however, simply put, outcomes are not worth the time and effort required since projects currently demand the engagement of many stakeholders. If an easier scheme is introduced, SIB may gain a foothold and prosper in the field of regional revitalization in Japan, especially incubation and migration support.

## Reference

Stiver A, Barroca L, Minocha S, Richards M, Roberts D (2015) Civic crowdfunding research: challenges, opportunities, and future agenda. *New Media Soc* 17(2):249–271

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# Chapter 2

## Overview of Hometown Tax Donation and the Challenge It Poses to Municipal Administration—Paradigm Shift in Municipal Administration: Incorporating Management Perspectives



**Keywords** Hometown Tax Donation · AIDA · Tax credit · Tax return · Gifts

### 2.1 Overview of Hometown Tax Donation

Hometown Tax Donation is a system that enables citizens to donate to prefectures or municipalities of their choice. Donations are subject to tax credits, with donors essentially receiving a cashback for any amount donated exceeding 2000 yen in the form of inhabitant tax credit and income tax return. For instance, if a resident of Tokyo donates 10,000 yen to one's hometown municipality, the resident will pay 8000 yen less inhabitant tax the following fiscal year. Thus, the system enables donating 10,000 yen to one's hometown with an actual cash outflow of only 2000 yen. Individuals who are originally from rural areas but now work in Tokyo have limited means to repay their hometown, but Hometown Tax Donation enables one to do so. Donations can be made not only to one's hometown but to any municipality; for instance, municipalities one is associated with in some way, has enjoyed visiting, or wants to support for disaster relief.

When making a Hometown Tax Donation, the maximum amount donated subject to receiving tax credit and tax return benefits (cashback) is 20% of one's inhabitant tax amount. (This upper limit was 10% until March 2015, but was raised to 20% in April 2015 accompanying a tax reform aimed at promoting the system.) Since the donor will pay less inhabitant tax in the following fiscal year, the donor's residential municipality will end up with less tax revenue. Without this upper limit, urban municipalities will face the risk of a bottomless drop in tax revenue.

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This chapter is based on part of a study by Hoda and Yasui (2017) with some revisions and additions.

### ***2.1.1 Backdrop and History Behind the Creation of Hometown Tax Donation***

According to the Ministry of Internal Affairs and Communications (MIC) which oversees Hometown Tax Donation, the following discussions prompted the creation of Hometown Tax Donation. Many people are born in rural areas and grow up receiving various public services from that municipality, including medical care and education; however, once they move to urban areas for higher education or to work, they end up paying tax to that city. Consequently, while the urban municipality earns tax revenue, the municipality where one was born and raised does not. Hence, concern was raised that “there should be a system enabling those currently living in cities to voluntarily pay some tax to one’s ‘hometown’ where one was nurtured” (source: Report by Hometown Tax Donation Study Group), and the system was established after numerous discussions and deliberations.

The Hometown Tax Donation Study Group met nine times between June and October of 2007 at the MIC. Based on the discussions held, the Local Tax Act was revised, and Hometown Tax Donation was launched on April 30, 2008.

The significance of and philosophy behind this system, according to the MIC, is (1) providing opportunities for tax payers to consider how their tax is used; (2) enabling individuals to endorse the region of their choice; and (3) urging municipalities to publicize their initiatives in order to capture Hometown Tax Donations, thereby promoting competition among municipalities.

### ***2.1.2 Virtual Transfer of a Portion of Tax Between Regions***

In short, Hometown Tax Donation is a system that enables citizens to select where to pay a portion of their tax. However, since individuals’ taxes cannot be split by will or on compulsion, citizens donate to regions of their choice and receive a cashback for most of the amount donated in the form of tax credits and tax returns so that one’s actual cash outflow is kept to a minimum. In effect, citizens are selecting where to pay a portion of their tax.

Those who hear about this system for the first time are often surprised by disbelief, so I will present an example case. If a resident of Kobe City makes a Hometown Tax Donation of 40,000 yen to Otaru City in Hokkaido Prefecture, the resident will receive an inhabitant tax credit of 38,000 yen (in some cases, this cashback will also consist of income tax return), so one’s actual cash outflow is only 2000 yen. Economically, Kobe City’s tax revenue will decrease by 38,000 yen, while Otaru City’s revenue will increase by 40,000, resulting in virtual transfer of tax between regions. Figure 2.1 shows the economic burden of individuals, and the economic effect on the donor’s residential municipality, the national government, and the municipality receiving

**Economic Effect on Individuals**

When individual does not make a Hometown Tax Donation		
	<u>Inhabitant and income tax payment to residential municipality and country</u>	-20
	Individual's total actual payment	<b>-20</b>
When individual makes a Hometown Tax Donation		
a	Inhabitant and income tax payment to residential municipality and country	-20
b	Hometown tax donation to municipality of choice	-4
c	<u>Inhabitant tax credit and income tax return from residential municipality</u>	3.8
d=a+b+c	Individual's total actual payment	<b>-20.2</b>

**Economic Effect on Municipalities**

When resident does not make a Hometown Tax Donation		
	<u>Inhabitant and income tax received by residential municipality and country</u>	20
	Amount received by residential municipality and country	<b>20</b>
When resident makes a Hometown Tax Donation		
e	Amount received by municipality receiving Hometown Tax Donations	4
f	Inhabitant and income tax received by residential municipality and country	20
g	<u>Tax credit and return to individuals from residential municipality and country</u>	-3.8
h=f+g	Actual amount received by residential municipality and country	<b>16.2</b>
i=e+h	Total amount received by all municipalities and country	<b>20.2</b>

**Fig. 2.1** Economic Effect on Individuals and Municipalities With and Without Hometown Tax Donations. *Source* Created by the author. *Note* The model is simplified. Values are shown in units of 10,000 yen. [b] is calculated as 20% of [a] (since the maximum amount donated subject to receiving tax credit benefits is set to 20% of one's inhabitant tax amount). [c] is the amount deducting 2000 yen from [b] 40,000 yen

Hometown Tax Donation. (In the case above, Kobe City is the donor's residential municipality, while Otaru City, Hokkaido Prefecture, is the municipality receiving donations.)

### ***2.1.3 Dispute Between Rural Areas Receiving Benefits and Urban Areas Facing Revenue Outflow***

Based on the above, although tax is essentially transferred between regions, one can speculate that Hometown Tax Donation is a beneficial tool for rural areas facing drastic deterioration. Furthermore, as the amount of [i] in Fig. 2.1 shows, the revenue of the country as a whole increase from 200,000 yen to 202,000 yen, so the country's revenue also seems to benefit. In the meantime, some regions (especially urban municipalities) are largely affected by the decrease in inhabitant tax revenue due to tax credits from Hometown Tax Donation. In the fiscal year ended March 2021, the decrease in inhabitant tax was 14.4 billion yen in Yokohama City, 8.5 billion yen in Nagoya City, 7.1 billion yen in Osaka City, 6.3 billion yen in Kawasaki City, and 4.9 billion yen in Setagaya Ward. The outflow of inhabitant tax of all municipalities in Tokyo Prefecture totaled 85.9 billion yen. When tax revenue decreases, 75% of

the decrease is compensated by increased local allocation tax grants in the following fiscal year (in the case of Yokohama City), but for municipalities that are not eligible to local allocation tax grants, such as Kawasaki City or the 23 special wards of Tokyo, inhabitant tax credit translates directly to a revenue decline. Therefore, not a few municipalities are opposed to Hometown Tax Donation, especially those in urban areas where tax revenue has declined because of the system. In fact, the 23 special wards of Tokyo announced a joint emergency statement on August 6, 2020, calling for revision of the system. While I will omit the details, the statement calls for alleviating the disadvantages for urban areas.

### ***2.1.4 “Gifts” in Hometown Tax Donation: A Core Driver of Regional Revitalization (The Focus of This Book)***

Meanwhile, Hometown Tax Donation has another feature which has fueled controversy surrounding the system as well as debates on the dispute between rural and urban areas; namely, that it has become increasingly common for municipalities receiving donations to give donors reciprocal gifts equivalent to 30% of the amount donated.

For municipalities currently facing a decline in population and tax revenue, individuals who make Hometown Tax Donations are extremely valuable. Naturally, municipalities will wish to express their gratitude or have donors know more about the municipality. Municipalities initially expressed their gratitude in various ways, with some sending thank you notes and others sending local specialties as reciprocal gifts. Local specialties were sent out in a similar vein as sharing home-grown products to neighbors, as is common in rural areas. This is how municipalities initially began to thank donors.

In the marketing world, the principle of AIDA is a well-known model describing consumers' actions till purchase. When applying this model to municipalities, municipalities draw “attention” using gifts, raise consumers' “interest” in the town through such gifts, drive consumers' “desire” to visit the town or purchase local specialties, and finally induce “actions” such as purchasing goods or visiting the town. By sending gifts, municipalities are essentially conducting marketing.

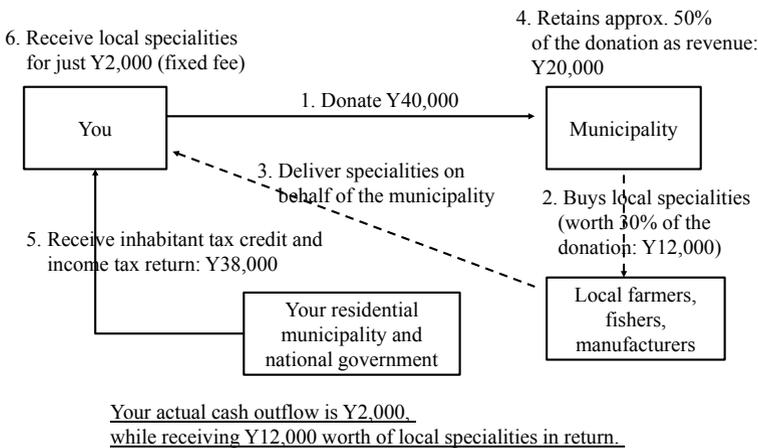
Once individuals making Hometown Tax Donations find out about such gifts, they will want to donate to municipalities that give out attractive gifts. In fact, between 2016 and 2019, the race among municipalities to provide more pricey or lavish gifts become an issue, sparking much criticism toward Hometown Tax Donation. To ensure soundness of the system, the law was revised in 2019. Currently, the maximum value of gifts is set to 30% of the amount donated, and to 50% when including packing, delivery and other processing expenses. Following this law revision, and as of October 2020, competition to provide excessive gifts among municipalities has subsided, and focus has been shifting toward how each municipality can effectively use funds procured through Hometown Tax Donation. Also, since differentiation

based on gifts is becoming difficult, municipalities are urged to make greater efforts, including publicizing how donations will be used.

Figure 2.2 shows the overall flow of Hometown Tax Donation including gifts.

Based on Figs. 2.1 and 2.2, Fig. 2.3 summarizes the economic effect on individual donors.

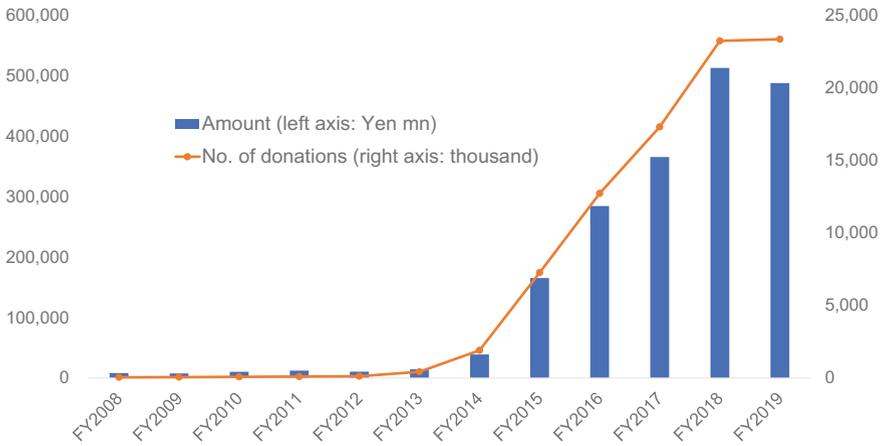
In part, since the system was introduced by various media as a “bargain” system, the Hometown Tax Donation market has expanded, with the total amount of Hometown Tax Donation in the fiscal year ended March 2020 reaching 487.5 billion yen (a decrease of 4.1% YoY), and the number of donors in 2019 (from January to December) reaching 4060,000 (an increase of 2.7% YoY). (Both figures announced by the MIC. The number of donors represents those who received tax credits after making Hometown Tax Donations, so the actual number may be higher). The shrinking market size based on amount donated is due to subsidizing competition in providing more pricey or valuable gifts following law revisions, and when considered together with the gradual rise in number of donors, the Hometown Tax Market can be regarded as having entered a phase of stability (Fig. 2.4).



**Fig. 2.2** Overall flow of Hometown Tax Donation. *Source* From Hoda and Yasui (2017) with some revisions. *Note* Municipal revenue is shown as 50% of amount donated in [4] assuming that the value of gifts is 30% of the amount donated, and packing, delivery and other processing expenses are 20%

**Fig. 2.3** Benefits for individuals making hometown tax donations

Donation:	− 40,000 yen
Tax cashback:	+ 38,000 yen
<u>Reciprocal gift: Approx.</u>	<u>+ 12,000 yen</u>
Resulting benefit: Worth	+ 10,000 yen



**Fig. 2.4** Market size of Hometown Tax Donation. *Source* Created from data released by the MIC

## 2.2 Paradigm Shift in Municipal Administration: From “Administration” to “Management”

Hometown Tax Donation has contributed to municipalities, especially those in rural areas, by instilling the idea that municipalities must be managed rather than administered. Most importantly, it introduced the two perspectives of innovation and marketing to municipalities. Municipalities are discussed in the second chapter of Peter Drucker’s “Management,” a business management classic. Drucker explains that municipalities and companies can be distinguished by their orientation toward “goals” and “results.” The goal for municipalities is to secure high budgets and implement large-scale projects, while companies seek efficiency by aiming to achieve results using low budgets. Once municipalities launch a large-scale project, they need to secure more budget to sustain the project. Such municipal activities involve neither innovation nor marketing. In this way, municipal administration is based on a completely different rationale from company management.

However, municipalities in need of money must now procure or produce their own funds instead of securing budgets from the national government. To do so, they must determine what their local capitals and strengths are, effectively promote and generate added value and innovativeness of such capitals, deploy marketing, and capture funds through purchases by non-locals. Ultimately, municipalities need to secure money by selling local goods and services, and this process is exactly the same as that of company management.

### ***2.2.1 A Framework Where Funds Are Secured Through Excellent Marketing***

It was under such circumstances that Hometown Tax Donation was established. Municipalities will be able to receive donations if they are successfully selected by general consumers. This implies that municipalities need to skillfully market themselves. Marketing regional characteristics, donation usage, and the attractiveness of gifts (i.e., local specialties) becomes important. In other words, municipal administration is currently approaching a turning point in a shift toward municipal management. However, equity and fairness continue to be fundamental in terms of providing public services. Municipalities therefore cannot be managed completely like companies. Nonetheless, there is no denying the importance of management perspectives, since municipalities that incorporate management perspectives will capture more funds and be able to provide better public services. As such, one achievement of Hometown Tax Donation is that it has served to fortify the resilience of municipalities. Meanwhile, one can predict that some municipalities will be indifferent to such management perspectives and have difficulty obtaining funds. For such municipalities, Hometown Tax Donation will be a source or concern.

### ***2.2.2 Difficulty in Marketing, Specific to Municipalities***

Hometown Tax Donation is significant in that it has prompted municipalities to make an effort to market regional attractiveness. At the same time, it is hard for municipalities, of which there are over 1700, to single-handedly capture people and money from outside the region. Even for companies, marketing strategies are subject to daily trial and error, and yielding desirable results is difficult. Attempts by municipalities without experience in this area will likely end up being a waste of money and therefore inefficient. Differentiation is particularly difficult among municipalities. Companies can be differentiated with their products by category of industry; for example, Toyota produces automobiles, while Suntory produces beverages and food. In addition, the number of leading companies in each industry will most likely be fewer than 100.

However, in the case of municipalities, there are no classifications like industries for companies, other than the distinction between urban or rural areas. This makes it even more difficult for municipalities to develop marketing strategies. One solution may be to implement PR activities with the greater region by collaborating with neighboring municipalities, rather than on their own. It is necessary for municipalities to consider more efficient ways as well as sharing expenses and benefits with neighboring municipalities, instead of keeping to themselves.

### ***2.2.3 Future Investment—Uncharted Land for Municipalities***

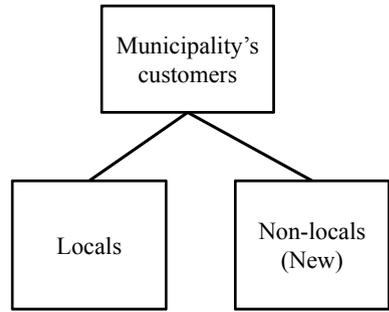
In recent years, municipalities have been facing budget cuts on a yearly basis, and their tasks have been centered on discontinuing or aborting existing projects and thereby reducing costs, rather than starting something new. In other words, they have their hands full with sustaining current levels. I was impressed by a municipality personnel's comment that, contemplating the usage of Hometown Tax Donations was the first forward-looking task he had engaged in since starting to work for the local government. The process of investing, raising revenue, and creating the future is considered a given for companies, but will be unexplored territory for many municipalities. Municipalities should take on this challenge by drawing on successful cases of companies as well.

### ***2.2.4 Who Are Municipalities' Customers in Present Times?***

In conventional municipal administration, town residents would be considered the town's customers. As a matter of course, locals would pay inhabitant tax, and in return, receive regional services. However, for regions to aim for economic development amidst regional depopulation, they will need to capture people and capital from outside the region. This implies reaching out to non-locals as new customers. Generally, citizens believe that the local government should spend 100% of their resources for public services targeting locals, and local government personnel also take this for granted. Therefore, it is not easy for municipalities as well as residents to change their actions by defining non-locals as new customers. However, if able to capture such new customers, municipalities can expect an increase in regional revenue through Hometown Tax Donations, wider acknowledgement of the region through exposing local specialties to other regions as gifts, and an accompanying increase in associating and interacting populations. Such outcomes in turn will enable enhancing public services for locals. Whether municipalities can change their conception on municipal administration in this way (i.e., make a paradigm shift), will be the key to fostering municipal competitiveness (Fig. 2.5).

However, when trying to capture non-locals as new customers, the boundary will be subject to debate. For instance, if one town tries to increase the inflow of people, residents of neighboring municipalities will most likely be the easiest ones to make visits. People rarely visit a non-touristic municipality from afar. This means that a large portion of a municipality's new customers will be residents of neighboring ones, and this may lead to competition to win customers among neighboring municipalities. Competition to win customers is commonplace in company management. However, municipalities have specific geographical boundaries, and customers have naturally been restricted to those within such boundaries. Municipal administration

**Fig. 2.5** New composition of municipalities' customers. Source From Hoda and Yasui (2017)



will become somewhat complex if a potential customer base is created outside this boundary. I will revisit such issues in Chap. 6.

### **2.3 Institutional Issues Involved in Hometown Tax Donation: Total and Partial Optimization**

Echoing the aforementioned discussion on competition to win customers among municipalities, optimal solutions may differ between the standpoint of the national government and each municipality. While I omit the details, there was a lawsuit between Izumisano City in Osaka Prefecture and the national government regarding Hometown Tax Donation. Previously, there were no explicit legal regulations for gifts, and instead, a guideline was released in the form of a notice by the Minister for MIC. Izumisano City basically ignored this guideline and collected massive donations by providing more attractive gifts than other municipalities. In response to Izumisano City's disregard of the guideline, the national government excluded the city from the Hometown Tax Donation system in 2019, whereby, the city filed a lawsuit against the national government.

Explaining the details and arguments of both sides is not the intent here. However, I would like to point out that, frankly speaking, for municipalities to survive, collecting every penny (or yen) possible in donations will make locals happy and be considered the right behavior for mayors or municipal personnel, even if this involves causing inconvenience to the national government or other municipalities.

If national growth is rapid, tax revenue will increase, and revenue source of all municipalities would also rise. However, in the current state of faltering growth, over 1700 municipalities must compete for people, goods and capital. Hometown Tax Donation more or less fuels this competition. As mentioned, the amount donated subject to receiving tax credit benefits is set to 20% of one's inhabitant tax amount, so the system can be interpreted as a message from the national government stating that "municipalities nationwide should compete with one another to win 20% of all national residents' inhabitant tax. To do so, municipalities must endeavor to promote regional attractiveness and implement marketing activities."

In the past, municipalities took uniform actions under rules set forth by the national government. Now that we face population decline and deterioration of rural areas, municipalities need to find their own optimal solutions while considering the direction indicated by the country. This implies that intense competition between municipalities may occur going forward. If one likens a municipality to a company, this is exactly the same scenario that takes place in company management. Like companies, municipalities can also reinforce their strengths by collaborating with other municipalities. Collaborating with the greater region will enable sharing each other's resources, thereby generating a larger positive impact on regional PR activities and local industries.

## 2.4 Various Discussions Regarding Hometown Tax Donations

As mentioned, although Hometown Tax Donation is defined as a donation, it can be interpreted as transfer of individuals' inhabitant tax to another municipality. Also, since donors receive gifts in addition to a tax credit, some liken the system to online shopping using tax. This should have supportive effects on regional economies. As another potential benefit, since the attractiveness of gifts influences one's choice of where to donate to, gift providers' mutual efforts to raise attractiveness of their products may contribute to enhanced regional business capabilities.

Meanwhile, municipalities that produce popular gifts (e.g., rice, seafood and meat) are in an advantageous position. Admittedly, the attractiveness of gifts is not everything—as will be mentioned in Chap. 7, the scheme of Hometown Tax Donation based on civic crowdfunding has also been gaining ground recently, where municipalities seek to win widespread empathy by specifying the usage of donations in advance—nonetheless, gifts significantly influence consumers' selections. Municipalities with scarce selection of gifts will naturally be placed at a disadvantage.

Municipalities of the donor's residence will be in an even more disadvantaged position since their inhabitant tax will be reduced. There is strong criticism regarding this aspect, especially from tax experts, that Hometown Tax Donation distorts the principle of tax. Particularly, in view of the benefit principle of taxation, Hometown Tax Donation deviates from the principle that tax payers and beneficiaries should be the same. The more residents in one region make Hometown Tax Donations, the more the quality and quantity of public service may decline in that municipality. Contrarily, the quality and quantity of public services in the municipality receiving donations may rise, and there are views that this only adds fuel to the zero-sum game. Some are also of the opinion that the gap in tax revenue between urban and rural areas is already compensated by local allocation tax grants, and that this break-even between regions should not be disrupted.

This book leaves out such debates about the pros and cons of the system itself, and instead presents several analyses from the viewpoint of how this system should be

used effectively to drive regional revitalization. I will present these analyses in order in the following chapters. Chapters 3 and 4 present the system's impact on incubation of local businesses through gifts and the ensuing implications for generating regional entrepreneurship. If such impacts are identified, they may serve as inspirations for policies necessary in regional revitalization, regardless of whether the system continues to exist or not. Increasing associating and interacting populations will be the key to regional revitalization and development, and Chap. 5 explores whether Hometown Tax Donation prompts regional revitalization and incubation through collaboration between municipalities and regional financial institutions. Chapter 6 examines the elements necessary to increase associating and interacting populations by referring to Hometown Tax Donation cases. Based on a survey research targeting regional financial institutions, I will search for clues for partnership in regional revitalization between local businesses, municipalities and financial institutions. Chapter 7 envisions the future of regional management by summarizing the current state of civic crowdfunding.

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# Chapter 3

## Effects of Fostering Local Businesses and Measures for Enhancing Business Capabilities: —Based on Case Studies on Hometown Tax Donation Gift Providers



**Keywords** Regional revitalization · SME policies · Incentive design · Demand generation · Public–private partnership

### 3.1 Conventional SME Policies Centered on Subsidies and Grants

When considering Hometown Tax Donation in the context of regional revitalization or development, some question whether it is any different from conventional subsidies or grants. For instance, a keyword search for “regional revitalization, subsidy” will result in many hits on subsidies available to municipalities; however, such subsidies and grants can be obtained as long as municipalities can deftly “compose” proposals to submit to the national government. Furthermore, there are no reviews on how subsidies are used or how regions were reinforced, and basically no cases where subsidies, once issued, are reduced or returned. Thus, securing subsidies, rather than using them effectively, becomes the end goal.

#### 3.1.1 *Current State of Local SME Policies*

It has therefore been pointed out that conventional SME support policies are mostly dependent on subsidies, with limited support on such matters as strategic management know-how, and do not sufficiently enhance motivation or skills of local businesses (Eshima 2006, and Kurohata 2012). Natori (2017) also argues that many

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This chapter is based on Hoda (2017), Hoda and Kubo (2019a, b), with some edits, reconstructions and additions.

SME support policies for new business development established by municipalities simply offer subsidies for technological development, and that it is necessary to provide SMEs with knowledge that they lack, including on market information and quality management. Furthermore, with regards to providers of SME support, Kurose (2006) discusses the prospects of locally driven SME policies directed by municipalities through shifting ownership from the central government to each region. Such arguments reveal that existing SME policies lack supportive measures aside from subsidies, that support is biased toward manufacturing companies in the field of science and technology, and that there is high expectation for regional municipalities to take ownership in SME support.

### ***3.1.2 Toward Improving Management Capability Indices of Local SMEs***

The government enacted the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises in 2016 based on the awareness that it is important for SMEs to foster human resource, enhance management capabilities such as cost management, and invest in capital. As management capability indices, the study on “Comprehensive Management Capability Indices” carried out by the Ministry of Economy, Trade and Industry (2002) adopted “new product development,” “management diversification or business transformation” and “enhanced production capabilities,” while Kubota (2010) emphasized customer competence (e.g., grasping market needs, and deciding target customers and competing products) and management capabilities (e.g., leadership, new product development capabilities, business system conception capabilities, human resource development and organizational revitalization, and IT capabilities). In other words, management capabilities consist of raising a company’s profitability or prospect for growth, and excludes technological capabilities such as for developing products or technologies. Regional SME policies would be deemed effective if they enhance such management capabilities.

## **3.2 Structural Characteristics of Hometown Tax Donation—From the Perspective of SME Support**

### ***3.2.1 Three Structural Characteristics***

While various support policies for local SMEs and venture businesses have been introduced and implemented in the past, Hometown Tax Donation can be distinguished from such policies by three structural characteristics. Namely, (1) gifts generate revenue only after being selected by consumers, giving local businesses the incentive to meet market needs; (2) the “market” for gifts is already in place, with

moderate competition among local businesses; and (3) local businesses and municipalities share a mutual interest and cooperate in tandem to enhance businesses and products. All three characteristics involve gifts. Since gifts are a by-product of Hometown Tax Donation and were not originally anticipated in the scheme, these structural characteristics emerged consequentially and incidentally; yet they are important as they provide implications for fostering local businesses.

### ***3.2.2 Difference Between Subsidy Policies and Hometown Tax Donation Gifts***

Regarding the first characteristic, donations may be viewed as subsidies to specific companies through purchase of products using tax. However, the fact that money only goes to companies manufacturing products that meet consumer demand makes it different from normal subsidies. In other words, donors (i.e., consumers) are essentially assessing products, thereby providing businesses the incentive to develop and deliver products that better meet market needs. Conventional subsidies could be obtained merely by composing convincing applications; whereas, businesses must raise product competitiveness and win the competition against similar gifts nationwide for their gifts to be selected by donors. In this way, Hometown Tax Donation automatically prompts creativity and competitiveness among businesses.

### ***3.2.3 Runup (Fostering) Market: Promoting Launch of Companies and New Businesses***

With regards to the second characteristic, many SME and venture business policies support the launch of businesses or financing, but companies need to secure their own customers. In contrast, gift providers of Hometown Tax Donation are provided with a market and potential customer base, and furthermore, municipalities will support operations such as order processing, customer support, delivery, and PR and advertising activities, so the hurdle for launching and entering into new businesses is extremely low. In our interviews, not a few local businesses responded that they were motivated to enter the gift market “because a market was provided in advance.” Their approach is to experiment with production and sales.

Taie Co., Ltd., which operates three convenience stores in Nemuro City, Hokkaido Prefecture, is one such company that adopted this approach. The company has been developing one new product after another, represented by an original milk pudding developed as a gift by a baker. When the author visited and interviewed Representative Director and President Mr. Toru Taie, he mentioned that since starting the provision of gifts, they have been designing new products every day and are enjoying developing such products. He mentioned that although many attempts end in failure, they value

the gift market as a test market since it enables experimenting with small-scale productions. They have also been encouraged to develop technology for extending product expiration date. In this way, gifts are distinct in that they motivate businesses by providing a market in advance.

According to the president, they previously could not expect a large demand since their market was restricted to Nemuro City, and did not consider developing new products since it could erode sales of the company's existing products. He also mentioned that by praising the female employee who devised the milk pudding in front of the entire company, all employees became further motivated.

### ***3.2.4 Collaborative Efforts Between Public and Private Sectors***

Regarding the third characteristic of Hometown Tax Donation, unlike standard SME policies, if businesses within a municipality provide attractive gifts, the municipality will receive more donations as direct income. Additionally, gifts serve as a point of contact with non-local consumers, making it easier to gain media exposure and attract attention, leading to increased recognition of the municipality and promotion of local specialties. Thus, municipalities will likely be motivated to support businesses. Businesses will also request various support from the municipality, as it is difficult for them to single-handedly gain competitive advantage over the many other gifts provided nationwide. In this way, the gift market can promote collaboration between local industries and municipalities.

With regards to SME policies, it has been acknowledged that support from municipalities and excavation of new customers are prospective areas for further commitment (Kurose 2006; Inoue 2016), and these challenges are being met, albeit unintentionally, through gifts of Hometown Tax Donation.

### ***3.2.5 Implications for SME Policies***

Owing to these three structural characteristics, the gift market holds potential for fostering local businesses. Moreover, the gift market gives local businesses more advantage and provides more moderate competition compared to general online shopping malls for two reasons. First, the competition will be between regional businesses only, since gifts are required to be local specialties, and the number of national brand products will be relatively small. In the case of primary products, such as vegetables or seafood, there are no national brands to begin with, but instead there are large retail chains. It is difficult for small local businesses to sell products to large retail chains since this requires high-volume production, and therefore, they end up

concentrating on wholesale. Contrarily, in the gift market, businesses can deliver their products directly to consumers without the mediation of large chain retailers.

Second, donors select gifts. According to a survey research conducted by INTAGE Inc. in 2019, the ratio of respondents who selected where to make Hometown Tax Donations based on “attractive gifts unique to the region,” “gifts of high value relative to donated amount,” and “region whose donation usage one sympathizes with” was 64.7%, 45.2% and 20.0% respectively (multiple choice). Thus, selection of gifts may be influenced not only by whether they are unique to the region but also by their value.

Since donors receive gifts worth more than their actual cash outflow of 2000 yen, donors feel to some degree that gifts are “given” to them, or purchased at a large discount. Hence, their expectation and demand for gifts should be lower than that of normal purchases. However, if gift providers become complacent with such circumstances, compromise the quality and contents of gifts, and fail to be inventive, Hometown Tax Donation will not have a fostering effect on businesses, and the gift market will simply be a giveaway of cash for government-created demand, no different from conventional subsidies or grants.

On the contrary, if the “gift market”—where the provision of gifts emulates an actual market—serves as a *dojo* for local businesses to enhance their capabilities and skills, it will have a fostering effect on local businesses. To what extent local businesses’ capabilities can be enhanced is a vital question, and will be answered in the next chapter. In the following sections of this chapter, I will present cases of innovations and endeavors by businesses in Japan, and pave the path for discussions on the prospect of the gift market fostering and creating businesses and leading to regional revitalization, and on ensuing implications for innovation policies necessary in regional revitalization.

### **3.3 Case Studies on Businesses that Enhanced Their Management Capabilities Through Providing Gifts**

Enhancement in business capabilities driven by provision of Hometown Tax Donation gifts can be categorized into three types. The first is a change in product exterior or unit of sales, including product design or packaging; in other words, a change in the visual of a company’s existing products. The second is a change in distribution channel or business style, which may include cases of companies that originally focused on wholesale, but started direct sales to consumers or online sales. The third is new product development, entry into new business, or launch of a startup. Businesses that enhanced their capabilities have mostly achieved two or all three of the above. Below, I will present case studies of businesses that enhanced their capabilities based on the three aforementioned types.

### 3.3.1 Case Studies on Upgraded Product Visual

Many local businesses have traditionally only served local markets, and entering into the e-commerce market with its many discerning consumers requires abilities to deal with high-level demands which they are unaccustomed to. Similarly, since donors mostly select gifts on Hometown Tax Donation web portals, photos and captions of gifts become important as in normal online sales. Portal service providers give advice to municipalities on photos and captions of gifts since there is also competition among web portals. In addition, some municipalities ensure quality of photos by tying up with a professional photographer, and outsourcing photography of all gifts of the region to that photographer.

Hirado City in Nagasaki Prefecture, which ranked number one in Hometown Tax Donations procured in fiscal year 2014, implements policies clearly aimed at strengthening local businesses' capabilities through the Hometown Tax Donation system. They are leveraging the system by regarding it as a preparatory phase for businesses to independently handle common distribution channels such as the e-commerce market, without depending on the system. The municipality has thoroughly guided businesses, for example, to change gift designs so they look more high-class, enhance freshness management methods, create product manuals, or reduce unit of sales to fulfill the needs of small households in the metropolitan area. Gifts with upgraded exterior are now also sold in local marketplaces that are frequented by tourists, contributing to an increase in sales of the entire regional market.

Figure 3.1 shows the packaging of *agodashi* (i.e., fish stock) and product image of *uchiwa ebi* (i.e., Japanese fan lobster), which are both popular gifts of Hirado City. Locally, *agodashi* is packaged for daily use and sold more casually. However, by packaging it as a gift, *agodashi* is now selected by discerning consumers and sold in the e-commerce market. While *uchiwa ebi* is not widely known in Japan, they are delicious with a similar texture to the more well-known *ise ebi* (i.e., Japanese spiny lobster). *Uchiwa ebi* has gained popularity by actively being marketed as similar to *ise ebi* and using refined photos.



**Fig. 3.1** Packaging of *Agodashi* (left) and Product Image of *Uchiwa ebi* (right), Both Gifts of Hirado City. *Note* Photos provided by Hirado City

It may be possible for municipalities and businesses or chambers of commerce and industry to collaboratively accumulate such know-how, share them with other local businesses, and raise regional economic strength. Awareness toward regional branding may also rise. For example, Hirado City delivers all gifts, regardless of their provider, in uniformly designed cardboard boxes, thereby establishing a regional brand. An increasing number of municipalities have similarly been elaborately designing cardboard boxes for delivery.

Hirado City also devises product packaging. Products delivered by businesses inexperienced in online sales are at times damaged inside cardboard boxes by the time they reach customers. Rural SMEs that lack online sales know-how are especially prone to this risk, and actually receive quite a few complaints. Thus, municipalities with popular gifts, including Hirado City, often centralize packaging to the municipality or an intermediary company. Products are sent to a collection site by businesses and are then packaged and delivered by the intermediary company. The strategy is to consolidate packaging and delivery know-how within the region so that gift providers can concentrate on product improvement.

Various other efforts catered to donors' perspectives include allowing donors to specify delivery time and date. Some municipalities have created innovations through analyzing donors' needs based on order data, developing products with manufacturers, and producing new hit products. It is unclear how long the Hometown Tax Donation system will continue; thus, local industries must be enhanced speedily with money captured from this system. This sense of urgency seems to be driving Hirado City's actions. Once a comprehensive scheme is established within the region, the region as a whole can enter into the e-commerce market.

### ***3.3.2 Changes in Distribution Channels and Business Styles***

The Tokyo metropolitan area constitutes the largest business-to-consumer (B2C) market in Japan. However, rural businesses face a high barrier in direct sales to urban consumers. Many businesses therefore end up deploying wholesales with lower margins than those of direct sales, or original equipment manufacturing (OEM).

Meanwhile, Hometown Tax Donation enables businesses to directly send gifts selected by a consumer, to that consumer. In other words, Hometown Tax Donation has provided businesses an opportunity to create consumer touchpoints, which was extremely difficult for them in the past. Some companies have shifted from business-to-business (B2B) to B2C by breaking away from wholesale or OEM-dependent business models. UTO Co., Ltd., an apparel manufacturer based in Kitakami City, Iwate Prefecture, manufactures and sells cashmere clothing. Their products are sold in department stores and are of high quality; yet their margin was not so high since their business was mainly OEM. However, they have gained consumer recognition by providing their products as gifts of Kitakami City, and are now shifting toward B2C.

Since UTO's gifts are all handmade, opportunities to communicate with consumers automatically arise while completing a product. Moreover, they have an office and shop, where they display sample products, in Omotesando which is one of Tokyo's fashion meccas. Although the shop is small, those who are pleased with UTO's gifts can visit the shop and take other products in their hands, and this holds great significance since look and feel are important especially for products like cashmere. While still small in number, some visitors have actually made purchases too. The case of UTO indicates the possibility of companies to shift from B2B to B2C or online-to-offline and offline-to-online (O2O), prompted by the Hometown Tax Donation gift market.

Maruhachi Suisan is a seafood wholesaler of *hamo* (i.e., Japanese conger), a popular luxury food, that started providing gifts for Shibushi City, Kagoshima Prefecture, by processing their *hamo* for B2C. As a wholesaler, they would simply procure *hamo* from the fish market and pass them on to retailers unprocessed. While this task is simple, margins are low. In contrast, B2C products require processing. The company therefore purchased a processing machine and started providing *hamo* in various styles so that they could be enjoyed at home, including fish balls, fried *hamo* and boiled *hamo*, and these products became popular in the gift market.

As the photo of a processed *hamo* gift shows (Fig. 3.2), while they look sufficient as gifts, further upgrades in packaging and visual will be required to gain popularity in normal online sales. Yet, the company has definitely taken its first step, and importantly, has purchased a processing machine, which means Hometown Tax Donation is boosting capital investment of local businesses. It is noteworthy that part of the purchase fee for the processing machine was covered by subsidies, so purchase was made possible through the municipality's recommendation of available subsidies to the company. This case indicates that local businesses can evolve and become innovative through expansive cooperation with municipalities.

### ***3.3.3 Case Studies of New Product Development, Entry into New Businesses, and Launch of Startups***

A source of concern for many municipalities regarding Hometown Tax Donation is that they do not have attractive local gifts that they can provide to donors. Municipalities with a population of only several thousands tend to not have a major industry, and even if they do, there is only enough supply to meet local demands and not enough to fulfill extra-regional demands. Thus, for many municipalities taking part in Hometown Tax Donation, their first task is to excavate gifts. They must create gifts if they have none.

Meanwhile, for rural businesses, the gift market provides an excellent chance for them to increase sales or try developing new products. Compared to starting normal online sales, the burden on businesses is smaller, since the municipality will take care of PR and advertising, order processing, and at times, even packaging and delivery.



**Fig. 3.2** Unprocessed *Hamo* (top left), Processing Machine (top right), Processed *Hamo* for Gifts (bottom). *Note* Photographed by the author

As such, the needs of both municipalities seeking attractive gifts and businesses seeking to develop new products match, and this has led to a succession of cases across Japan of new product development, entry into new businesses, or launch of startups in an attempt to enter the Hometown Tax Donation gift market.

A restaurant in Osaki Town, Kagoshima Prefecture, developed high-class *catalana* (pudding) as gifts, and this became a hit product on the gift market. Initially, the restaurant did not sell *catalana* locally, since they thought there was no local demand for such high-class products. However, demand for local sales rose, so the restaurant eventually started face-to-face sales at *michi no eki* (i.e., roadside stations) and other local locations as well. As a matter of course, sales of restaurant businesses are limited by seating capacity. Yet, restaurant businesses can secure new sales channels through external sales at *michi no eki* or other locations, and through provision of Hometown Tax Donation gifts, which in turn can immensely reinforce their revenue source.

I would also like to introduce initiatives taken by Cotoyu, a confectionery cafe in Hirado City. The shop is about a twenty-minute drive from the center of Hirado City. Guidance signboards are chipped off, with not a person in sight. The shop, which opened in a rent-free unoccupied house, operates three days a week and only four hours a day at that. Their main business is online sales of frozen sweets. The president is a mother in the midst of child-raising, and employees are also local mothers working part-time. To the question of why she opened the shop in such an inconvenient place, she replied that it was because her home was close by, and that it was the only location available when considering raising children as well.

The president is not even a patisserie. She mentioned that she studies baking on her own through searching the Internet for recipes and product designs. The shop uses the gift market as a test market, by first offering its products as gifts, and then selling popular ones in the e-commerce market. Unlike normal online sales, gifts do not require inventory. Since gifts can be produced and delivered after orders are received, there is no risk of carrying dead inventory which are normally associated with new product development. Hence, the gift market is excellent for testing new products. The shop later opened on Rakuten Ichiba, and became a popular shop on the online shopping mall as well. This is a case where Hometown Tax Donation propelled a business to significantly advance in online sales. This case also represents a revolution in trading area. A confectionery shop can gain nationwide popularity without building a fancy shop in Omotesando or Ginza in Tokyo.

It is worth noting that the shop is fastidious about the ingredients it uses, and purchases high-quality ingredients not only from local producers but from across Japan. Often times, rural businesses try to procure all ingredients locally, being too fixated on local production. While this will contribute to the local economy through distributing money within the region, consumers seek delicious and high-quality products, and not necessary products using 100% locally made ingredients. Rural businesses should note that there are many cases nationwide where quality and cost are sacrificed because of fixation on procuring locally (Fig. 3.3).

Although the barrier for entering the gift market is lower than that of the normal e-commerce market, some may think that the case of an amateur mother opening a cafe and successfully starting online sales is too good to be true. As a matter of fact, the president attended an entrepreneurship course offered by Hirado City (and operated by the chamber of commerce and industry), and manages her shop by leveraging the knowledge she acquired through the course and asking many questions to experts



**Fig. 3.3** Location of Cotoyu (top left), Exterior of the Shop (top right), Confectionery (bottom).  
*Note* Photographed by the author

she met there. Importantly, the entrepreneurship course is funded by Hometown Tax Donations collected by the city.

### ***3.3.4 Impact on Employment of Persons with Disabilities***

While somewhat different from the cases presented thus far, I will close this section with cases where gifts have affected businesses employing those with disabilities. Eggs used in the aforementioned milk pudding provided by Nemuro City are produced by Nemuro Suzuran Gakuen, a support facility for those with disabilities. Also, Hamada City in Shimane Prefecture provides confectionery gifts manufactured at Yogashi Kobo Torteno, which is operated by Iwami-Welfare Society and where those with disabilities bake confectionery. If sales increase by providing gifts, the shop can employ more disabled people or raise employees' salaries. And if those

with disabilities can become economically independent, municipal spending will also decline. At the welfare society, those with disabilities also make dumplings which are similarly provided in the gift market. There are bound to be consumers who select products that lead to support for those with disabilities when choosing among various confectionery or dumplings. Yet, such products are difficult to come by in normal supermarkets or online shopping. The emergence of the gift market has paved the path for products made in such support facilities for those with disabilities to reach consumers nationwide. This movement serves to both support regions and resolve social issues, and is interesting from the perspective of SDGs as well.

### **3.4 Key to Launching Local Companies or New Businesses Through Public–Private Partnerships**

#### ***3.4.1 Operational Support Impacts SMEs***

Interviews with providers of Hometown Tax Donation web portals and large companies running online shopping malls revealed that many gift providers were inexperienced in online sales. It has been a while since online shopping has taken root in Japan, but rural SMEs still have difficulty launching online sales on their own in terms of both know-how and resources.

Contrarily, when entering the gift market, municipalities support order processing, PR and advertising, and other peripheral operations. Such support has immensely lowered the hurdle for launching online stores or sales. Incubation systems are being enriched, with the country and municipalities also offering various support for starting up companies or new businesses. However, such support is mostly confined to reinforcing systems, including for lending, company registration, and providing management advice, and businesses are therefore assumed to conduct actual operations unaided. The aforementioned case studies suggest that companies can take on new challenges if they receive support in actual operations. This will also serve as an insightful implication for devising incubation policies in Japan going forward.

In fact, Hirado City has actively carried out incubation projects, with over 70 people attending individual startup consultations and 13 startups actually being launched as of July 2017. Among them are young entrepreneurs who returned to Hirado City from urban areas; hence, such projects are steadily leading to reinforcing local industries.

#### ***3.4.2 How to View Sixth Industrialization***

I would like to discuss “the shift toward the sixth industry” which often surfaces when deploying regional revitalization. The provision of *uchiwa ebi* and *shabu shabu*

by Hirado City, Nagasaki Prefecture, and processed *hamo* for B2C by Shibushi City, Kagoshima Prefecture, are cases where fishers or wholesalers of the primary industry voluntarily entered into the processing industry, and ultimately achieved sixth industrialization. Does this mean that gifts contribute to sixth industrialization of regional industries?

An apple farmer of Nakanojo Town, Gunma Prefecture, mentioned in an interview that apple farmers, whose production is affected by the weather, wish to work on sixth industrialization, since manufacturing and selling processed goods will lead to stabilized income throughout the year. However, processing products requires such equipment as commercial freezers, refrigerators, and ovens. Since each apple farmer is not so large, investing in such equipment will exceed one's financing capability and prove to be difficult. The farmer therefore seeks some kind of local government support in this area. For instance, municipalities may use the Hometown Tax Donations it receives to support such sixth industrialization.

Meanwhile, according to an interview with Nemuro City, Hokkaido Prefecture, which has an active fishing industry similar to Hirado City, it is more effective for them to use existing local supply chains of the primary, secondary and tertiary industries, rather than to promote sixth industrialization of one company through provision of gifts, since their fishery industry is large to begin with, and the division between primary, secondary and tertiary industries in the city is already established.

Such cases suggest that there are various scenarios: for instance, the Hometown Tax Donation gift market may support relatively small-scale sixth industrialization; meanwhile, other measures may be necessarily to support large-scale sixth industrialization; or it may be more effective to divide industries rather than aim for sixth industrialization. Therefore, setting up a market like that of Hometown Tax Donation gifts does not necessarily bolster sixth industrialization; however, it likely encourages businesses to think creatively and innovatively, such as seeking to develop new products or considering ways to achieve this. Raising productivity of agricultural and fishery industries is an issue in Japan, and Hometown Tax Donation may be a key in such discussions.

### ***3.4.3 Promoting Launch of Local Companies or New Businesses by Creating a Market (Demand) in Advance***

I introduced various cases thus far, all of which were triggered by the emergence of the easily accessible gift market. Similar to the crowdfunding market, businesses will take on challenges if a test market is created in advance. One reason deploying businesses in rural areas is difficult is because rural trade zones are shrinking on the back of depopulation. In order to expand trade zones, entry into e-commerce or online sales markets is effective; however, the barrier for entry is high for SMEs that lack the know-how and resource.

If businesses can be fostered by a preparatory market, and if they can enter into e-commerce and online sales markets after accumulating sufficient know-how, the preparatory market will function effectively as a supportive measure for local businesses.

While Hometown Tax Donation is sometimes criticized as government-driven online shopping and a waste of tax money, if the preparatory market creates demand in advance and thereby fosters local businesses, this provides implications for regional incubation policies, not limited to Hometown Tax Donation.

### 3.5 Challenges in Fostering Local Businesses

This chapter presented case studies of enhanced business capabilities and regional economic power; however, such cases are not the majority at present. Businesses and municipalities that are highly motivated with high levels of issue awareness recognize such trends, but there are also regions and companies that are simply relishing the special demand created by Hometown Tax Donation. In that sense, it is necessary to instill nationwide awareness that businesses and regions should be reinforced while the system lasts. Also, it will be difficult to produce results if leaving enhancement of business capabilities and skills up to companies.

Successful case studies such as those introduced in this chapter should be shared actively with other companies and municipalities to efficiently achieve progress. Online shopping malls such as Rakuten Ichiba offer courses to convey know-how and skills to respective shops on a regular basis. Such opportunities need to be provided in Hometown Tax Donation as well. Municipalities can hold study sessions for local businesses, or create councils or associations where gift providers can exchange opinions or share know-how. In fact, such councils and associations have been established in several regions, and as will be mentioned in the following chapter, financial institutions serve a consulting role in some cases. Ultimately, such study sessions or sharing of know-how need to be extended from respective regions to the nation.

To achieve this end, all stakeholders must acknowledge that a *dojo* is necessary to enhance capabilities and skills of local businesses and to raise economic power of each municipality, and industries, the public sector, and financial sector must promote cooperation across the nation. If the Hometown Tax Donation gift market ends in mere special demand for local businesses, it will be no different from conventional regional revitalization policies centered on cash giveaway. Discussions should be centered on fostering businesses and raising regional power.

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# Chapter 4

## With a View Toward Initiating Regional Entrepreneurship—Based on Data Analysis and Survey Research of Hometown Tax Donation Gift Providers



**Keywords** Regional entrepreneurship · New product development · New business development · Regional development · Product innovation

### 4.1 The Need to Grasp the Current State of Hometown Tax Donation Gift Providers

The previous chapter examined several cases where local SMEs (i.e., gift providers) enhanced their business motivation or skills through providing gifts for Hometown Tax Donation, a system unlike conventional SME support policies. If similar cases can be found in other regions nationwide, this may offer political implications for creating an ecosystem that initiates much-needed regional entrepreneurship in Japan. To gain insight into elements necessary in fostering local businesses, this chapter introduces results of a survey that asked gift providers about the seeds of regional entrepreneurship deriving from Hometown Tax Donation.

Among the 1741 municipalities eligible to receiving Hometown Tax Donations, 962 have populations of fewer than 30,000, among which 519 have populations of fewer than 10,000 (as of January 1, 2020, according to the MIC; population by municipality based on Basic Resident Registers). While companies located in large cities would have advantage in normal business since they are in proximity to a large metropolitan customer base, rural companies have less disadvantage in Hometown Tax Donation since urban residents commonly donate to rural areas. In fact, among the 20 municipalities that received the most Hometown Tax Donations, 13 in fiscal year 2018 and 9 in fiscal year 2019 had populations of fewer than 30,000, implying that small municipalities are not necessarily disadvantaged.

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

Meanwhile, some municipalities have raised concern that the gap will widen between regions with and without attractive local specialties. Even if a municipality is small in size, having a nationally renowned business in the region may place the municipality in an advantageous position. If gifts are being provided by relatively large businesses with surplus capital and capacity, gifts cannot be expected to have much impact on driving innovation or fostering local businesses. On the contrary, if gifts are prompting SMEs to develop new businesses, as seen in the previous chapter, such impacts may be expected.

Thus, in order to understand what kind of local businesses are being influenced by the gift market, this chapter depicts an overview of gift providers by unveiling their attributes and the impact gift revenue has on them.

## **4.2 Method of Survey Research on Gift Providers' Attributes and Improvement in Their Management Capabilities**

Of the top 20 municipalities that received the largest donations in fiscal year 2016, we excluded Kumamoto City, which received large donations for earthquake disaster relief efforts, and asked the remaining 19 municipalities for their cooperation, among which 15 consented (hereinafter referred to as “top regions”). Additionally, we randomly selected 10 other municipalities (hereinafter referred to as “randomly selected regions”) and conducted the same survey for purpose of comparison. We sent a set of surveys to each municipality by postal mail (on December 6, 2017), and asked the municipalities to forward the surveys to all gift providers in their region. We requested that each business directly send their responses to us via postal mail by the end of January 2018. Surveys were sent out to a total of 1073 businesses (by 25 municipalities), and we received responses from a total of 310 businesses, consisting of 163 in the top regions and 147 in the randomly selected regions (response rate of 28.9%). Questions included those on corporate profile and attributes such as revenues and number of employees, their current state of gift provision, changes in business operation or improvement in management capability indices driven by Hometown Tax Donation, and alliances with municipalities. Results were analyzed using simple tabulation, cross tabulation, and t-test. We then compared the impact and changes stemming from Hometown Tax Donation between the top regions and randomly selected regions.

It should be noted that to accurately compare the top regions with other regions, it would be ideal to extract municipalities with attributes similar to each top region as matching samples, and then to group and analyze them as randomly selected regions. However, since it is difficult to elicit cooperation for this kind of survey, we regarded the group of municipalities that cooperated with our survey but were not among the top regions as randomly selected regions. As such, the comparison between the top and randomly selected regions are for reference only. Nonetheless, since donations

procured by the top 20 regions accounted for one fourth of total donations, the top regions may be unique, and we therefore believe it is important to verify and compare the situation of other regions relative to the top regions, albeit not through proper sample matching.

### 4.3 Attributes of Gift Providers

#### 4.3.1 Size of Gift Providers

We will first look at the business size of the gift providers. Figure 4.1 indicates that the majority of Hometown Tax Donation gift providers are typical rural small businesses, with median annual revenues of 100 million yen in top regions and 58 million yen in randomly selected regions, about six to eight employees, and online sales ratio of less than 10%. The distribution by revenue (Fig. 4.2) shows that businesses with annual revenues of 30 million yen or less accounted for nearly 30% in the top regions and nearly 40% in the randomly selected regions. Meanwhile, businesses with annual revenues exceeding 500 million yen accounted for some 20% in both regions. Since no significant difference was detected in business size between the top and randomly selected regions, with similar proportions of large businesses in both regions, business size does not seem to be a determinant for becoming a top region.

Regarding the distribution by number of employees, small businesses with five or fewer employees accounted for some 40% in both the top and randomly selected regions (Fig. 4.3). Most are presumably family-run businesses. In conjunction with aforementioned total revenue levels, it was verified that many rural micro businesses are participating in the Hometown Tax Donation gift market. Such small businesses

	Average		Median		SD	
	Top regions	Randomly selected regions	Top regions	Randomly selected regions	Top regions	Randomly selected regions
Revenues (¥mn)	503.3	832.8	100.0	58.0	1135.8	3,146.8
Extra-regional sales ratio (%)	44.5%	39.8%	50.0%	30.0%	34.5%	33.9%
Online sales ratio (%)	14.8%	12.0%	9.0%	5.0% *	22.3%	21.3%
B2B sales ratio (%)	44.4%	49.1%	40.0%	50.0%	36.3%	38.8%
No. of employees (ppl)	18.5	27.3 *	8.0	6.5	25.2	64.6
Female employment ratio (%)	50.65%	46.4%	50.0%	50.0%	27.0%	31.2%

**Fig. 4.1** Basic attributes of gift providers. *Note* Categories marked with “\*” are those with a significance level of 5% between the top and randomly selected regions. The number of respondents was 163 for the top regions and 147 for the randomly selected regions. “Extra-regional sales ratio,” “online sales ratio,” and “B2B sales ratio” are ratios to total revenues of revenue from outside the prefecture, revenue from online sales, and revenue from wholesale

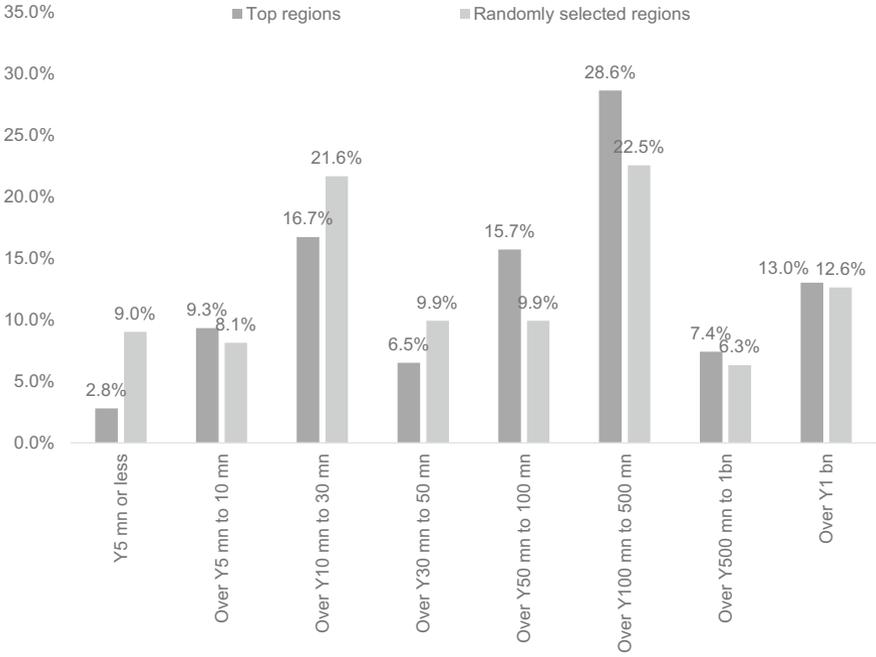


Fig. 4.2 Distribution of gift providers by revenue

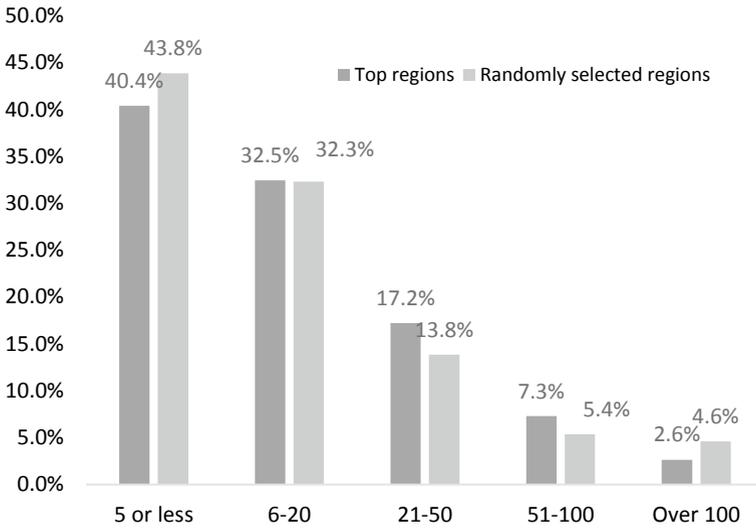
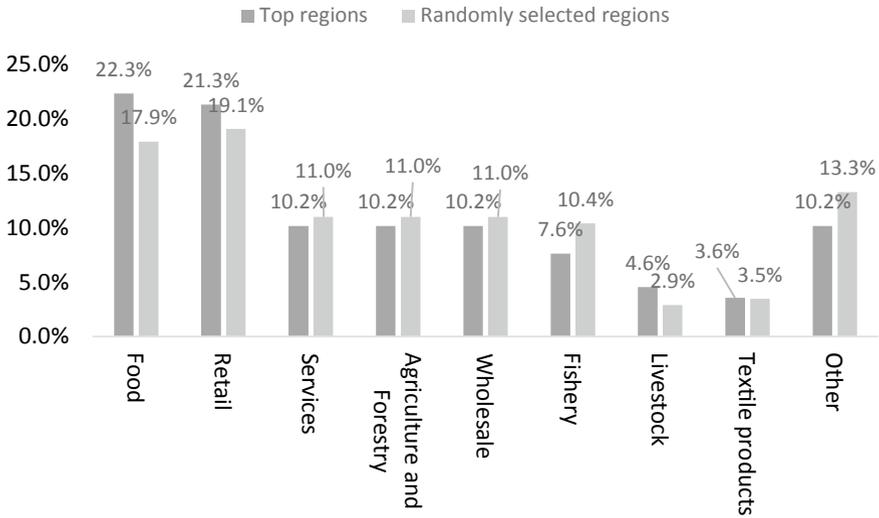


Fig. 4.3 No. of employees of gift providers



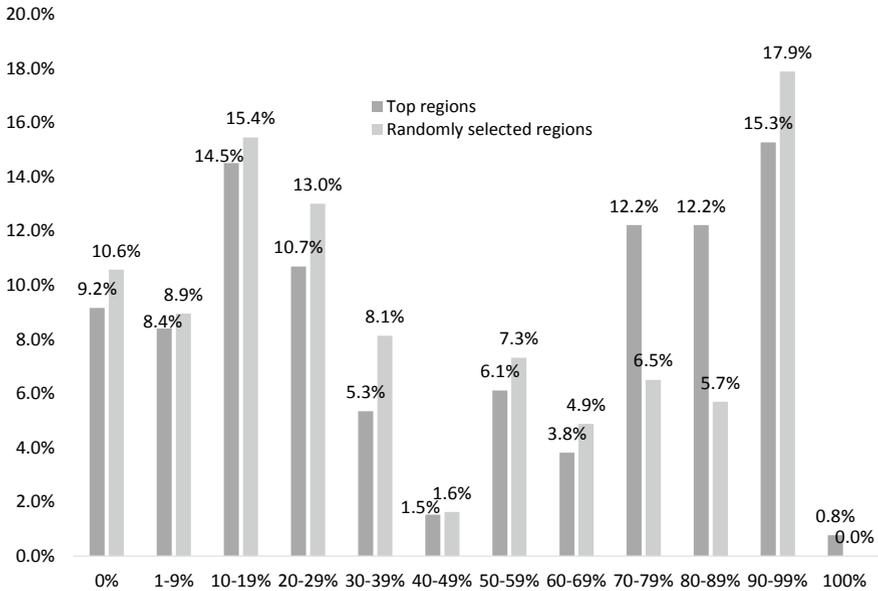
**Fig. 4.4** Industry of Gift Providers. *Note* Since the question is multiple choice, some businesses apply to more than one industry

are presumably not equipped to start handling gifts, and to compete in the gift market, they will need to collaborate with other local businesses in order processing and back-office operations, with the backup of municipalities or local trading companies. In reverse, businesses within regions that offer such intra-regional support may gain a competitive edge in the gift market. It is worth noting that businesses with over 50 employees accounted for merely 10%. Since the MIC suggests that gifts should be local specialties, one can assume that relatively large companies that produce and sell national brand products are excluded from the gift market.

As for industries of gift providers, although food and retail account for some 40%, the inclination is relatively small with no dependency on specific industries (Fig. 4.4). Gifts therefore do not seem to exclusively support specific industries.

### 4.3.2 Breakdown of Gift Providers’ Revenues

Ratio of sales from outside the prefecture to total revenues (i.e., extra-regional sales ratio) was 50.0% in top regions and 30.0% in randomly selected regions; however, the breakdown shows that businesses in both the top and randomly selected regions could be divided into a group with high extra-regional sales ratios and a group with low ratios (Fig. 4.5). One can argue that the gift market reinforced extra-regional sales for businesses that were originally strong in this area, while offering businesses that originally had low extra-regional sales ratios an opportunity to enter extra-regional markets.



**Fig. 4.5** Extra-regional sales ratio of gift providers

Ratio of online sales to total revenues was 9.0% in the top regions and 5.0% in the randomly selected regions (Fig. 4.1; median), presenting a significant difference. One interpretation is that regions where there were originally many businesses adept at online sales became top regions, while another interpretation is that businesses gained online sales know-how prompted by Hometown Tax Donation and increased their online sales ratio. The distribution shows that some 80% of the businesses in both regions have an online sales ratio of less than 20%, implying that many businesses inexperienced in online sales are entering into the gift market (Fig. 4.6). In other words, the gift market may be offering rural SMEs opportunities to experience and try out online sales.

Next, the distribution by ratio of B2B sales to total revenues (i.e., B2B sales ratio) can be categorized into a group of businesses centered on B2B, and a group of businesses centered on B2C (Fig. 4.7). Businesses with a B2B sales ratio of over 80% accounted for over 30% in top regions and nearly 40% in randomly selected regions—these businesses may be leveraging the gift market to enter into the B2C realm. Rural businesses who have difficulty directly accessing urban customers often settle for low-margin wholesales; however, such businesses may be attempting a breakthrough by using the gift market, as seen in the previous chapter with the apparel manufacturer based in Kitakami City, Iwate Prefecture, which used the gift market as a foothold to enter into the B2C market from wholesales.

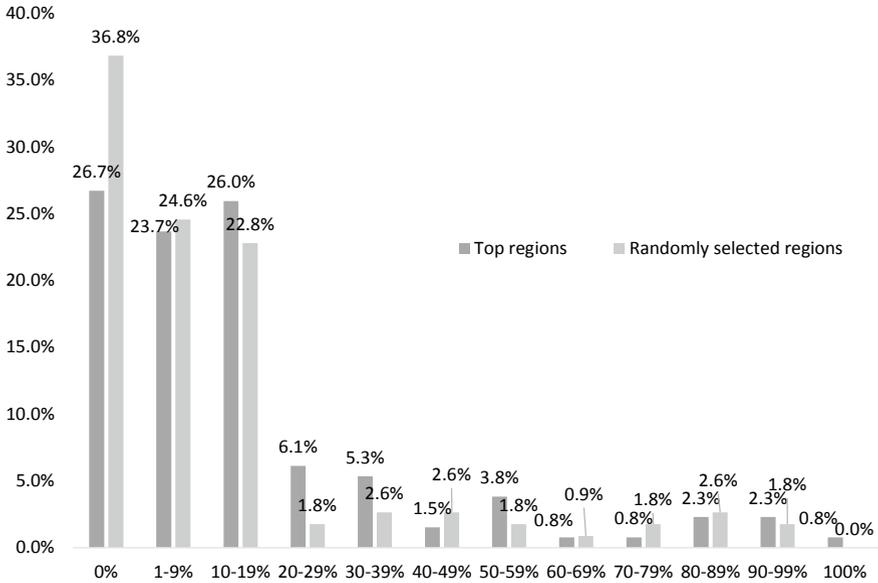


Fig. 4.6 Online sales ratio of gift providers

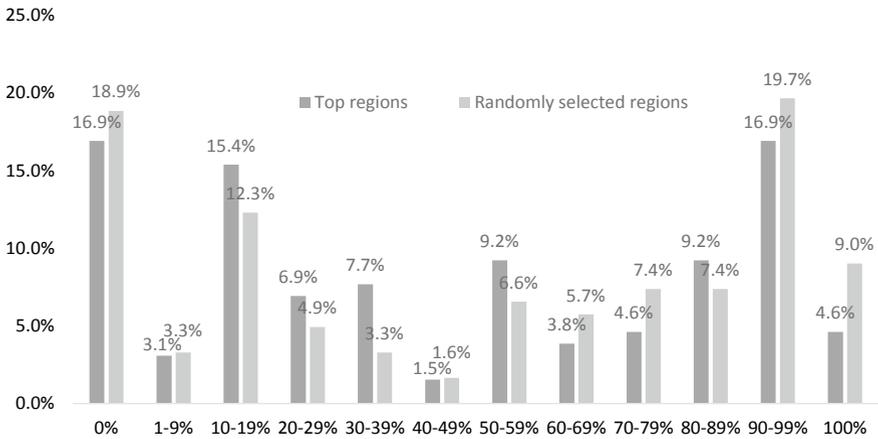


Fig. 4.7 B2B sales ratio of gift providers

### 4.3.3 Gift Revenue by Amount and by Ratio to Total Revenues

Gift revenue per business was 1.9 million yen in the top regions and 1.2 million yen in the randomly selected regions (Fig. 4.8; median of 2017). The distribution shows that businesses with gift revenue of less than 5 million yen accounted for 64.0%

(Ymn)	2016				2017			
	Top regions		Randomly selected regions		Top regions		Randomly selected regions	
	No.	%	No.	%	No.	%	No.	%
0-1	33	29.2%	39	39.8%	45	33.1%	59	47.6%
1-5	32	28.3%	32	32.7%	42	30.9%	36	29.0%
5-10	7	6.2%	5	5.1%	11	8.1%	6	4.8%
10-30	19	16.8%	15	15.3%	15	11.0%	13	10.5%
30-50	7	6.2%	2	2.0%	8	5.9%	4	3.2%
50-100	4	3.5%	3	3.1%	6	4.4%	4	3.2%
100-	11	9.7%	2	2.0%	9	6.6%	2	1.6%
Total	113	100.0%	98	100.0%	136	100.0%	124	100.0%
Not answered	50		49		27		23	
Average revenue	Y43.6mn		Y10.7mn		Y26.1mn		Y12.8mn	
Median revenue	Y3.6mn		Y1.6mn		Y1.9mn		Y1.2mn	
SD of revenue	Y137.0mn		Y29.8mn		Y79.8mn		Y65.8mn	

Fig. 4.8 Gift revenue (per business/annual)

in the top regions and 76.6% in the randomly selected regions, indicating that gift revenue per business is not so large overall. Comparing 2016 with 2017, the ratio is lower as a whole in 2017. This is because more businesses joined the gift market in each region, implying wider engagement within regions.

Meanwhile, businesses whose gift revenue was 100 million yen or more accounted for 6.6% in the top regions and 1.6% in the randomly selected regions (in 2017). The fact that certain businesses are earning large revenue may be interpreted in two ways. On the one hand, one might argue that the larger the size of a business, the more apt they are at handling gifts; hence the more they would benefit from the system, spreading the disparity between local businesses further. This would cause a dilemma where the system intended to foster local SMEs is, in reality, benefiting relatively larger businesses. On the other hand, the presence of such established local businesses may lead to better recognition of the region, and in turn, benefit smaller businesses. High regional profile and strong regional PR capabilities are important particularly since Hometown Tax Donation is a system where individuals donate to municipalities. The presence of a renowned business in the region is essential in procuring donations, and wider recognition of the region should benefit other businesses as well. Therefore, it would be naive to simply criticize the fact that certain businesses are making large profits through gifts.

The ratio of gift revenue to total revenues per gift provider (Fig. 4.9) was 10.0% in top regions and 8.0% in randomly selected regions (median for 2017), suggesting that, as a whole, dependency on gifts is not so high. Nonetheless, businesses whose gift revenue exceeded 50% of total revenues was 14.0% in the top regions and 10.4% in the randomly selected regions (in 2017)—such businesses require attention since

Ratio	2016				2017			
	Top regions		Randomly selected regions		Top regions		Randomly selected regions	
	No.	%	No.	%	No.	%	No.	%
0-9%	42	43.8%	44	50.6%	55	45.5%	57	53.8%
10-19%	14	14.6%	20	23.0%	22	18.2%	22	20.8%
20-29%	9	9.4%	10	11.5%	13	10.7%	11	10.4%
30-39%	10	10.4%	6	6.9%	11	9.1%	4	3.8%
40-49%	5	5.2%	0	0.0%	3	2.5%	1	0.9%
50%-	16	16.7%	7	8.0%	17	14.0%	11	10.4%
<b>Total</b>	<b>96</b>	<b>100.0%</b>	<b>87</b>	<b>100.0%</b>	<b>121</b>	<b>100.0%</b>	<b>106</b>	<b>100.0%</b>
Not answered	67		60		42		41	
Average revenue ratio		13.4%		13.5%		19.2%		14.1%
Median revenue ratio		8.0%		8.0%		10.0%		8.0%
SD of revenue ratio		18.5%		18.4%		23.3%		19.8%

**Fig. 4.9** Ratio of gift revenue to total revenues

they are excessively dependent on Hometown Tax Donation and their financial results are susceptible to the system.

The two tables above imply that it is essential to establish a flexible policy that offers more support to businesses with small gift revenue or with low ratio of gift revenue to total revenues until they gain a competitive edge, while offering less support to those with opposite traits. The policy should be designed to give guidance to those that are not fully leveraging the system, while redirecting businesses that are inclined to rely on the system.

### 4.3.4 Summary of Attributes of Gift Providers

This section unveiled the attributes of local businesses participating in the Hometown Tax Donation gift market, and the impact of gift revenue on businesses. Analysis results showed that over 40% of the gift providers are small businesses with five or fewer employees, and that some 80% are businesses with an online sales ratio of less than 20%. The gift market mostly consists of rural SMEs, and may be offering them an opportunity to take their first step and experiment with online sales. This is important especially for rural areas with contracting trading areas. The gift market also seems to be driving some B2B companies to enter into the B2C realm.

Thus, the gift market is offering wide-ranging opportunities to local SMEs, and by leveraging local SMEs, even regions with weak local industries or lacking specialties should be able to procure Hometown Tax Donations. On another note, although dependency is not high as a whole, some businesses seem to rely heavily on gift revenue, and it is therefore necessary to establish a system that avoids excessive dependency on the gift market, with an exit strategy in sight. Moving forward, the

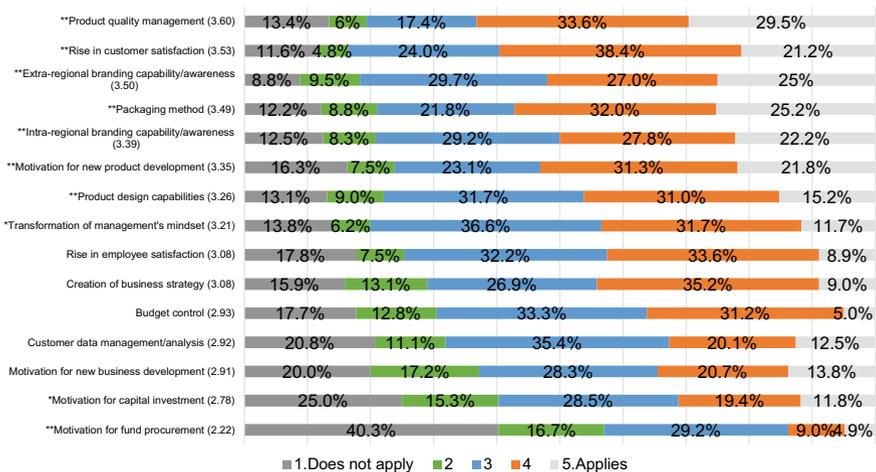
challenge will be for local businesses to enhance their skills in the gift market and pave the way for competently striving in other markets as well.

## 4.4 Survey Results Regarding Enhancing Management Capabilities of Gift Providers

### 4.4.1 Changes in Gift Providers

#### 4.4.1.1 Changes in Business Motivation and Management Capability Indices

Figure 4.10 shows results to questions on whether providing gifts of Hometown Tax Donation enhanced business motivation or management capability indices on a scale of 5 ranging from “Does not apply (1 point)” to “Applies (5 points)” (targeting the top regions). Results show that significant positive effects were felt in product quality management, rise in customer satisfaction, intra-regional and extra-regional branding capability and awareness, packaging method, motivation for new product development, product design capabilities, and transformation of management’s mindset.



**Fig. 4.10** Changes in management capability indices through the gift market (in the top regions). *Note* Rating from 1 to 5 in 1-point increments. Respondents consist of 163 businesses in the top regions. Values are the average value of responses excluding “Not answered.” A test was applied to the difference from 3, which is the median score of the responses. Categories marked with “\*\*:\*” and “\*\*:\*” are those with significance levels of 1 and 5%

Change in extra-regional branding capability and awareness was the result of businesses reaching out to previously inaccessible customer bases through gift web portals.

Businesses can also benefit from extensive advertising and promotion that would not be possible otherwise, since municipalities take the initiative in this field as part of promoting the region. In effect, local businesses are making a concerted effort to conduct advertising and promotion by raising their buying power toward general media and advertising media. It is interesting that positive effects were also seen in intra-regional brand capability and awareness. According to our interview with businesses, this was the result of locals reappraising their region after learning of the rise in extra-regional brand capability and awareness.

Product quality management, rise in customer satisfaction, packaging method, and product design capabilities are all improvements in skills. Web portals introducing gifts contain user reviews, similar to typical online shopping sites. Such improvements in management capabilities are likely the result of local businesses—originally mostly targeting local customers or in the wholesale trade and not having direct contact with customers—striving to deal with rigorous assessment mainly by urban consumers.

Higher motivation to develop new products and transformation of management’s mindset signify that provision of gifts is leading to regional entrepreneurship by functioning as a *dojo* (i.e., training platform, originally for martial arts) for local businesses. However, it should be noted that there was a significant negative effect in motivation for fund procurement and capital investment. Hence, although gifts are initiating regional entrepreneurship, they are not boosting motivation for capital investment or financing. This situation implies that regional entrepreneurship triggered by provision of gifts is restricted to what can be done within the range of existing facilities and equipment or financial capacities.

#### 4.4.1.2 Initiatives Toward Developing New Products or Businesses

Next, we examine changes in businesses and implementation of product-related initiatives. Figure 4.11 shows that more than one out of three businesses in both the top and randomly selected regions developed new products or businesses. This finding is significant considering the fact that most respondents were rural SMEs.

Such cases are seeds of regional entrepreneurship stemming from provision of gifts, and should have a profound impact on regions encountering economic slow-down. In our interviews with local businesses, some mentioned that they are not motivated to develop new products for the local market, and even if they did, it could push down revenues of existing products; thus, they face a dilemma when engaging in intra-regional innovation.

Interviewees also mentioned that even if they did possess the skills to produce high-quality products, there is no demand for such products locally, so products are not commoditized. However, the momentum to develop new products has risen with the emergence of the extra-regional gift market mainly consisting of urban

	Changes experienced	
	Top regions	Randomly selected regions
New products/businesses	37.4%	35.3%
Increase in employees	28.1%	13.8%
Increase in employees' income	25.5%	19.5%
Intra-regional sales expansion	25.3%	19.9%
Extra-regional sales expansion	22.3%	16.7%
Extra-regional bases (e.g., establish office)	2.7%	4.0%
Improved productivity	29.5%	24.8%
6th industrialization	32.5%	23.9%
Online shopping mall, proprietary online shopping site	27.8%	16.8% *
Form of sales	8.3%	6.7%
Product unit	14.2%	12.6%
New product manual	32.6%	27.9%
Capital investment	20.1%	12.1% *
Additional/new loans	11.8%	3.0% **
Consulting financial institutions	5.6%	4.5%
Media coverage	36.2%	35.0%

**Fig. 4.11** Changes caused by providing gifts. *Note* Values are ratios to the total number of responses excluding "Not answered." The number of respondents was 163 for the top regions and 147 for the randomly selected regions. Categories marked with "\*" and "\*\*" are those with significance levels of 5 and 1% between the top and randomly selected regions

consumers. As introduced in the previous chapter, *catalana*, a gift of Osaki Town in Kagoshima Prefecture, was developed by accurately predicting urban demand for high-class products, and became popular, whereby demand for local sales also emerged, leading to sales in *michi no eki* and local convenience stores. In fact, many businesses have taken measures including to extend expiration date to withstand long-distance deliveries or develop ambient food products.

#### 4.4.1.3 Effects on Expanding Sales Channels

Intra-regional sales rose in 25.3% of the businesses in the top regions and 19.9% in the randomly selected regions. These are cases where local specialties became popular in the gift market and earned high reputation from non-locals, and consequently gained local popularity as well. There are also movements to strategically market products that gained popularity in the gift market as local specialties targeting non-local travelers and visitors.

Similarly, 22.3% of the businesses in the top regions and 16.7% in the randomly selected regions have experienced an increase in extra-regional sales. These are cases where products gained recognition through Hometown Tax Donation and

Sales channel	Intra-regional sales expansion		Extra-regional sales expansion	
	Top regions	Randomly selected regions	Top regions	Randomly selected regions
<i>Michi no eki</i>	11	11	4	3
Wholesale	11	10	9	3
Supermarket	4	5	3	3
Restaurant	5	1	7	1
Online sales	2	0	5	3
CVS	1	2	1	1
Other	18	14	9	9
Total	52	43	38	23
No. of respondents	39	27	34	21

**Fig. 4.12** New intra-regional and extra-regional sales channels

prompted businesses to enter into online sales or other new sales channels. While excavating extra-regional sales channels is especially challenging for rural SMEs, Hometown Tax Donation helps raise recognition of local products and thereby serves as a supportive policy to a certain extent. Intra-regional sales expansion represses consumption outflows and promotes intra-regional circulation of money, while extra-regional sales expansion contributes to a rise in regional GDP through increased “foreign currency.”

To businesses that replied that they experienced sales expansion, we also asked “to what extent (approximately) was total revenue raised.” According to their responses, total revenues were raised by some 10% for intra-regional sales expansion and some 17% for extra-regional sales expansion. Sales expanded mainly in shipments to local *michi no eki* and wholesalers (Fig. 4.12).

#### 4.4.1.4 Increase in Employment, Income and Productivity

Returning to Fig. 4.11, employment increased in nearly 30% of the businesses in the top regions and nearly 15% in the randomly selected regions. Also, employees’ income rose in 25.5% of the businesses in the top regions and 19.5% in the randomly selected regions. The increase rate of employees’ income was an average of 9.8%. An increase in employment and income in rural areas should boost regional consumption, which in turn may raise local GDP. Regarding productivity, 29.5% of the businesses in the top regions and 24.8% in the randomly selected regions experienced an improvement. According to our interviews, some businesses wanted to hire more personnel to expand production in response to rising gift revenue; however, they were unable to find new local personnel and had to raise productivity while maintaining capacity. Productivity was raised by an average of 15.3%.

#### 4.4.1.5 Changes in Business Style and Sixth Industrialization

For Hometown Tax Donation to initiate regional entrepreneurship, the system should ideally serve as a *dojo* for nurturing local businesses so that they would not continue relying on the system. Below, we summarize the results of several questions asked from this perspective. First, 27.8% of the businesses in the top regions and 16.8% in the randomly selected regions opened a shop on online shopping malls or launched their own online sales site triggered by Hometown Tax Donation. For businesses in rural areas that face depopulation, market expansion through online sales is important; yet many are hesitant since the barrier is high for attempting entry on one's own. However, some businesses are taking on the challenge by gaining know-how through provision of gifts. The ratio for the top regions was significantly higher than that for the randomly selected regions. Presumably, the more gift orders a business receives, the more know-how and capacity they can accumulate for starting online sales.

Also, a common issue of rural businesses is their low profitability due to their wholesale business style. Once such businesses establish their own brand or secure their own customers, they would be able to lower the weight of low-margin wholesale and aim for higher corporate profitability. However, such cases were the minority in our research. Changes in form of sales (e.g., entry into retail from wholesale, or into restaurant business from retail) were only seen in 8.3% of the businesses in the top regions and 6.7% in the randomly selected regions.

As for whether businesses achieved sixth industrialization, which we asked agricultural and fishery businesses, 32.5% of the businesses in the top regions and 23.9% in the randomly selected regions replied that they did. This includes cases where farmers and fishery businesses built their own processing facilities to manufacture and sell processed goods, or where farmers started manufacturing and selling juice. A common issue in sixth industrialization is that businesses tend to be product-oriented and not market-oriented; however, one can immediately identify what kinds of products are popular on Hometown Tax Donation gift web portals. Also, since the gift market covers sales, the hurdle for managing sales is lower than that in a normal sixth industrialization. In this way, the gift market also drives engagement in sixth industrialization.

#### 4.4.2 Impact on Regional Investment and Lending

Forward-looking investments are essential in raising corporate value. Yet, making investments is difficult for companies with uncertain business outlooks, whereby, corporate values and regional economies continue to shift toward contractual equilibrium. Nonetheless, if companies foresee business opportunities in the Hometown Tax Donation gift market, they may be motivated to make investments, and businesses that earn higher profits through provision of gifts would ideally invest surplus capital in future growth and strive to gain competitiveness in areas other than the gift

market. In our survey, we asked for details and the amount of investments made to businesses who replied that they made capital investments. Results revealed that the total amount of capital investment made by all 45 businesses in 25 regions was some 150 million yen. Approximately two out of three of those investments did not use subsidies, but instead were self-financed. Investments ranged from purchase of large refrigerators and freezers to purchase of various processing equipment, construction of new shops, expansion of offices, and purchase of office automation equipment.

Meanwhile, the number of businesses that received new or additional loans from financial institutions to finance provision of gifts was not large, as shown in Fig. 4.11. Compared to the various changes and capital investments implemented by businesses mentioned above, the extent of lending and involvement by financial institutions seemed to be somewhat weak. Going forward, further involvement by regional financial institutions will be critical for the system to function more effectively as an SME policy. It is worth noting that among the businesses that received new or additional loans, 77.3% responded that they also made capital investments, indicating a high correlation between capital investment and loans.

### 4.4.3 *Effects from Matching Interests Between Municipalities and Businesses*

One of the three structural characteristics of Hometown Tax Donation is that municipalities actively support local businesses, and the extent of such support influences management capabilities of businesses and the amount of donation a municipality receives. Figure 4.13 shows results of a question to businesses regarding the discussions they had with municipalities.

	Top regions		Randomly selected regions	
	No.	%	No.	%
Verifying contents and no. of orders	84	36.8%	59	27.8%
New product development	46	20.2%	51	24.1%
Product upgrades	39	17.1%	44	20.8%
Checking inventory	34	14.9%	21	9.9%
Securing personnel	2	0.9%	1	0.5%
Obtaining subsidy	3	1.3%	2	0.9%
Future capital investment	2	0.9%	1	0.5%
Other	18	7.9%	33	15.6%
Total	228	100.0%	212	100.0%
No. of multiple answers	65		65	

Fig. 4.13 Matters discussed with municipality officials

Results show that while the most frequently discussed matter was verification of orders, the proportion for new product development and product upgrades was also high, implying that municipalities are offering detailed advice and serving a supportive role to businesses with an aim to capture more donations. Although not shown in the table, we also asked businesses whether they were satisfied with the support from municipalities, and some 90% in both the top and randomly selected regions responded in the affirmative. This suggests that support from municipalities is playing a certain role in the growth of local businesses. Conventional SME policies implemented by the national government or municipalities merely presented a list of initiatives, and businesses, who lack the necessary resource, had to do all the work, making it difficult to yield results. However, in the case of Hometown Tax Donation, municipal officials extensively support local businesses since success or failure in engagement directly affects the amount of donations a municipality receives. This aspect makes Hometown Tax Donation unique, and provides implications for regional SME Policies.

We also asked businesses whether they collaborated with other gift providers through sharing knowledge or know-how, and about half responded that they have or are interested in doing so, suggesting that Hometown Tax Donation may be prompting closer collaboration among local businesses. As long as all local businesses operate within the local market, they will need to compete against each other to win local customers; however, if businesses aim to win non-local customers, they can become partners who help each other advance. In fact, there have been cases where new products were developed through collaboration among local businesses, including in Fukaya City in Saitama Prefecture, Osaki City in Kagoshima Prefecture, and Okuizumo Town in Shimane Prefecture. Advances in such collaboration among local businesses should spur regional innovation and entrepreneurship.

## **4.5 Implications for and Challenges of Initiating Regional Entrepreneurship Based on Survey Research**

The analysis results thus far unveiled that provision of gifts has prompted some local businesses to implement progressive business strategies, including entry into the secondary industry, or a move toward sixth industrialization. Furthermore, some businesses have expanded their sales channels beyond the gift market, and such movements should be reinforced going forward. Yet, although these developments require lending by regional financial institutions and active investments by businesses, such circumstances could not be verified.

The discussions above provide two insights into effective rural venture business and SME policies. One is the presence of a market with adequate competition. If there is a platform that serves as a *dojo*, local SMEs can prepare and train to enter full-scale markets (e.g., the e-commerce market). Importantly, in this *dojo*, general consumers should be the trainers providing guidance. This circumstance will urge

local businesses to take a market-oriented approach and strive to provide products that will be selected by consumers. This scheme is different from the conventional scheme where businesses simply improved their paperwork skills in order to successfully obtain subsidies. The second is matching interests among municipalities and local businesses, and the promotion of intra-regional collaboration among local businesses.

Meanwhile, there is an issue that needs to be addressed; namely, establishing an exit strategy for the *dojo*. The value of Hometown Tax Donation will not be fully exercised if it merely creates irregular government-driven demand for gifts, and turns out to be nothing more than tax-driven support for rural SMEs' revenues. The system will only hold value if it guides businesses to "graduate" from the *dojo* and thereafter strive competently in regular markets. For example, Vegiko Vegiko based in Miyazaki Prefecture used to provide vegetables for smoothies as gifts, but later exited the gift market, and is currently achieving ample revenues by expanding its regular business through delivery service of fresh produce. More businesses need to become centered on regular e-commerce, as is the case of the confectionery cafe Cotoyu introduced in the previous chapter. In this way, businesses are required to effectively use the gift market, rather than depending on it, to boost brand recognition or conduct test marketing, and thereby achieve growth.

There is also a potential pitfall in matching interests between municipalities and businesses. Once businesses exit the gift market, as in the case of Vegiko Vegiko, donations to municipalities will decline. Since donations received by a municipality are directly linked to provision of gifts, it is necessary for municipalities to have businesses continue providing attractive gifts. This is the exact opposite of having businesses avoid depending on the gift market as discussed above, and striking a balance will be difficult.

Ideally, businesses should increase their revenues in both gift and regular markets; however, they then face the question of whether general consumers would pay the full price to buy products that were offered for almost no cost in the gift market. An optimal solution to this problem would be to create a local ecosystem where new local businesses constantly emerge, enter into the *dojo* market, and then graduate. To achieve this, it is important that businesses, municipalities and financial institutions make a concerted effort to generate regional entrepreneurship.

While such challenges remain to be addressed in terms of exit strategy, our research revealed that the Hometown Tax Donation gift market serves a certain role in fostering local businesses. Moving forward, the biggest challenge is to increase the ratio of businesses whose management capability indices improve through gift revenue, and to produce as many businesses as possible that can also strive in general markets. Furthermore, it is important that municipalities themselves not rely on gifts to receive donations, but instead make such efforts as winning the empathy of donors through presenting effective usage of donations.

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# 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

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

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.

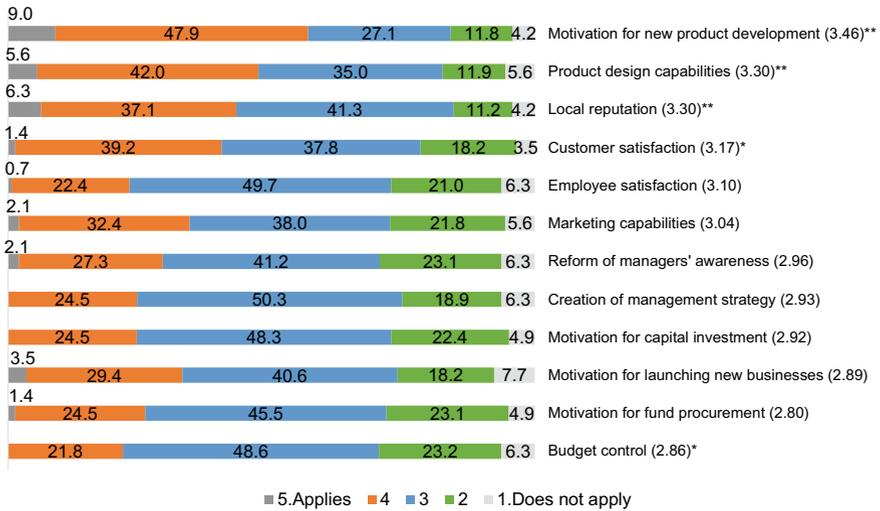
We also asked respondents to rate related categories on a scale of 1–5 to verify whether they thought gift providers’ skills or capabilities were enhanced. Results are shown in Fig. 5.2. Similarly, Fig. 5.3 shows the extent to which respondents thought Hometown Tax Donation contributes to regional revitalization.

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)	<i>Shinkin</i> bank (n=97)	Regional bank (n=27)			
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No		
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	0.0%	2	2.1%	4	14.8%
Both 1 and 2	Yes	<b>40</b>	<b>34.2%</b>	<b>4</b>	<b>8.3%</b>	<b>4</b>	<b>11.4%</b>	<b>40</b>	<b>30.8%</b>	<b>7</b>	<b>17.1%</b>	<b>25</b>	<b>25.8%</b>	<b>12</b>	<b>44.4%</b>
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	<b>4</b>	<b>3.4%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>4</b>	<b>3.1%</b>	<b>0</b>	<b>0.0%</b>	<b>2</b>	<b>2.0%</b>	<b>2</b>	<b>7.4%</b>

**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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# Chapter 6

## Regarding Measures by Rural Areas to Promote Migration and Settlement and Increase Associating Populations—Implications from Various Measures Triggered by Hometown Tax Donation



**Keywords** Migration and settlement measures · Parenting support measures · Regional revitalization · Interacting population · Associating population

### 6.1 Sharing of People is Important Amid National Depopulation

The circulation of people, goods and capital is important in revitalizing rural areas. Hometown Tax Donation gifts have forged a scheme where rural areas secure capital by providing goods to the Tokyo metropolitan area and other urban areas. Ideally, however, rural areas should promote local specialties in the gift market (i.e., capture recognition), then obtain consumers in regular markets (i.e., capture real demand), and finally attract people to their region. Depopulation is a major issue faced by rural areas, and many municipalities are actively promoting migration and settlement. However, enhanced migration and settlement measures and competition to win over residents by each municipality, amid depopulation projected on a national scale, will lead to a scenario where widespread zero-sum competition exhausts the entire country. Instead, emphasis should be placed on measures to increase associating populations. In other words, municipalities should aim to share people rather than secure residents.

As an example, in Kamiyama Town and Minami Town in Tokushima Prefecture, venture businesses have opened satellite offices in succession, bringing forth a lifestyle of working from both rural and urban areas—for instance, working from a satellite office for several months during the year and in the city for the rest. In addition, with the promotion of crowdsourcing and telework, people living in rural

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

areas can now work with companies in the city, and are no longer bounded by physical workplace. The need to migrate from rural areas to urban areas in search for a job is becoming a thing of the past. In particular, now that work from home (WFH) has become the new norm amid the coronavirus pandemic, the population flow from urban to suburban or rural areas may be irreversible.

Also, in terms of tourism, *minpaku*, which involves renting out private property to tourists as represented by Airbnb, has become widespread, and ridesharing services such as Uber have also emerged. Against this backdrop, some regions are striving to increase associating population through Hometown Tax Donation. Several survey research have also revealed that many people want to visit the regions to which they made donations.

This chapter explores cases of initiatives aimed at creating associating or interacting populations and of migration and settlement measures triggered by Hometown Tax Donation, and examines their effectiveness and ensuing policy implications.

## 6.2 Creating Associating and Interacting Populations Through Hometown Tax Donation

### 6.2.1 Encouraging Experience-Oriented Visits

Fujiyoshida City in Yamanashi Prefecture invited those who donated 20,000 yen or more to a bus tour in October 2018. A bus was chartered for a one-day tour from Shinjuku, Tokyo, to Fujiyoshida City. This tour was unique because local high school students proposed the route and even took part as tour guides. While Fujiyoshida City lies at the base of Mount Fuji, it is not a famous sightseeing destination. Thus, the first step in coming up with the one-day tour route was to excavate and reconsider the region's attractiveness. The route included visits to gift providers, whom the high school students visited and interviewed in advance to better understand their products.

Through this process, the local high school students got to know their community better, and gained civic pride through receiving praise from tour participants for their efforts and the city itself. The city had carried out five similar tours targeting donors since 2017, but all were organized by municipal staff. This time around, the initiative was stepped up by engaging local high school students for the first time.

According to a survey research targeting the participants, who were chosen by lottery, approximately half (26 out of 55 respondents) visited Fujiyoshida City for the first time. As for why they applied to the tour, 29, or more than half, replied "because the tour was offered as a special benefit." It seems not a few participants joined mainly because the tour was free; however, the tour attracted not only retired seniors but participants of all ages ranging from those in their 10s to 70s (with relatively many in their 40s and 50s). It is remarkable that those of the working generation were willing to spare one whole day to visit the city, albeit for free.

While the survey reported that participants were highly satisfied, it is also noteworthy that to the question “Was anything lacking?” quite a few expressed their opinions along the lines of “Perhaps locals themselves do not understand the region’s attractiveness. They should deliver a stronger message” or “Promotions should be stepped up since the city is so attractive.” I believe this holds true not only for Fujiyoshida City but also rural areas across Japan. Often times, something locals find insignificant is deemed attractive from a non-local perspective. Fujiyoshida City’s initiatives offer much to learn for municipalities across Japan in terms of creating associating populations.

Other regions are similarly inviting donors to visit; for instance, Tamaki Town and 12 other municipalities in southern Mie Prefecture organized a two-day regional tour. Higashikawa Town in Hokkaido Prefecture also invites donors to visit the town and take part in a tree-planting activity. Preserving forests is important for the town, which does not have a public water supply system, and in effect, tree-planting not only offers visitors a unique experience but is also part of *machizukuri* (i.e., community development). Inviting non-locals to think about *machizukuri* rather than merely treating them as guests, and having them consider the region as their own is none other than sharing of people.

### **6.2.2 Rural Areas Actively Approaching Donors**

Meanwhile, some rural municipalities are approaching urban areas to increase associating and interacting populations. For instance, Kamishihoro Town in Hokkaido Prefecture and Hirado City in Nagasaki Prefecture hold “Hometown Tax Donation Thanksgiving” in urban areas represented by the Tokyo and Kansai metropolitan areas. Donors can become familiar with the region, including through food tasting of gifts, sessions introducing the town, and consulting desks for migration. Such events are either organized independently by municipalities, or jointly by multiple municipalities through Hometown Tax Donation gift web portals or other platforms. Creating a point of actual contact should also prompt donors to make repeated donations.

### **6.2.3 Creating Opportunities for Citizens to Participate in Machizukuri: Strengthening Local Kizuna**

While I introduced initiatives for increasing associating and interacting non-locals thus far, rural areas also face the troublesome issue of contraction and outflow of populations. Against this backdrop, there are cases where Hometown Tax Donation has served to strengthen the connection between municipalities and local residents.

For example, Nemuro City in Hokkaido Prefecture and Sakai City in Fukui Prefecture contemplate the use of Hometown Tax Donations with local volunteers.

Normally, the municipal council determines the use of budgets, and therefore, citizens only indirectly engage in decision-making through the council member they elected. In reality, most citizens are uninterested in what goes on at the council as well as *machizukuri*, and many do not feel attached to their town. Even if they are interested, both municipal and central governments in Japan are currently inclined toward so-called “silver democracy.” Diet and municipal council members strive to gather votes from senior citizens, since those who vote consist mostly of senior citizens and the ratio of the elderly population is also on the rise. Accordingly, the diet and municipal councils prioritize discussions on and budget allocations to measures that benefit the silver generation.

On the other hand, Hometown Tax Donations are funds secured from outside the region, and therefore, their usage can be considered more flexibly and dynamically. Nemuro City invited applicants from the general public, mainly in their prime working years of 30s or 40s and with wide-ranging occupations, as members of the “Nemuro City Hometown Support Future Meeting,” to discuss and propose the usage of donations. Uniquely, they also organized a sub-committee consisting solely of high school students. Such initiatives will spur locals’ interest in *machizukuri* and enable discussions on regional issues that are difficult to attend to in a silver democracy. This should help strengthen local *kizuna* (i.e., bonding) and may even help suppress population outflow.

If the city takes this one step further and extends membership to donors of Hometown Tax Donation, ties with non-local interacting populations may also be strengthened further.

## 6.3 How to Perceive Enhancement of Migration and Settlement Measures

### 6.3.1 *Successful Cases Are Few on a National Scale*

The central government asks that each municipality create a “regional population vision” and “regional comprehensive strategies” in line with the basic principle of halting excessive concentration of population in Tokyo and resolving regional issues according to regional characteristics. The comprehensive strategy positions measures against depopulation as a major challenge in regional development, and as actual measures to generate population flow to rural areas, the government promotes “regional revitalization cooperation troops” which comprises citizens, and dual residence. In addition, each municipality deploys their own migration initiatives, with some actually yielding positive results—for example, “mild” migrations promoted by Sabae City in Fukui Prefecture, or the migration and startup support project by Nishiawakura Village in Okayama Prefecture. Such movements have generated a

population inflow to rural areas, including of younger generations represented by ICT engineers or content creators who are more receptive to rural migration, and of senior citizens seeking continuing care retirement communities (CCRC) (Koyanagi 2016). However, the extent of new inflow to rural areas is still insufficient.

Yet, in this environment, some municipalities are anticipated to increase interacting populations or boost migration and settlement going forward driven by Hometown Tax Donation. A representative case is Kamishihoro Town in Hokkaido Prefecture, which was introduced as “having increased population through enhanced parenting support” in the best practices of Hometown Tax Donation usage compiled by the MIC in 2018.

### **6.3.2 *Effects and Pros and Cons of Enhanced Parenting Support Measures***

Kamishihoro Town, with a population of merely 5000, collected 970 million yen in Hometown Tax Donations in 2014 (ranked no. 3 nationwide) owing to its popular gift of *naitai* Japanese beef. This prompted them to establish “The Ordinance for Kamishihoro Town Hometown Tax Donation and Dream Fund for Parenting Support and Measures Against Declining Birth Rate,” and allocate all donations to this fund for the purpose of enhancing parenting support measures. For example, donations were used to purchase a school bus and to make the tuition for Nintei Kodomoen Horon, an integrated center for early childhood education and care in Kamishihoro Town, partly free in 2015, and completely free for a decade starting from 2016.

At Horon, the municipality also financially aids English lessons taught by foreign teachers and transport for children commuting long distances. The town’s initiatives have been covered by multiple national media, and the town has increasingly been introduced as a successful case of using Hometown Tax Donations to enhance parenting support measures and raise its population. As an example, a Nihon Keizai Shimbun article dated June 15, 2016 reported that “Kamishihoro Town in Hokkaido Prefecture, which receives one of the largest donations nationwide, used donations to open a *nintei kodomoen* with integrated functions of both nursery center and kindergarten, and made the tuition partly free in fiscal year 2015. The town’s population, which had been declining, increased by 40 people during the four months between February and May.”

While there are not a lot of prior studies on how parental support measures influences migrations, Nakazawa et al. (2015) analyzed the impact that municipal parental support measures have on birth rates and migrations of households with small children, targeting municipalities across Japan and in the Tokyo metropolitan area. Results showed that in the Tokyo metropolitan area, parenting support measures are a contributing factor for parents with small children to move from other municipalities, and notably, that having sufficient nursery centers distinguishes municipalities with many child-raising households from those without. However, this trend was not

apparent in the analysis targeting municipalities across Japan. The study also pointed out that “it is necessary to examine whether municipal parenting support measures are truly effective” in light of the revelation that migrations of children aged five to nine were influenced by the presence of opportunities to receive higher education, but not by income support offered as part of children welfare expense.

With regards to migrations from rural to urban areas, it was revealed that migrants place importance on living environment in cases of both U-turns, where people return to places they lived in the past, and J-turns or I-turns, where people move to new places (e.g., Abe et al. 2010, Komori 2008, and Sakuno 2016). Also, Lee and Sugiura (2017) have revealed in a research targeting migrants to Hirosaki City in Aomori Prefecture, that many of the migrations were homecomings by ex-residents, and that the major determinant for migrations was the presence of parents’ homes as places of residence. Therefore, promoting migrations presumably requires enriching living environments in addition to enhancing parenting support measures.

Analysis results of Nakazawa et al. imply that although enhanced parenting support measures, especially enriching nursery centers, influence migrations in the Tokyo metropolitan area, careful analysis and judgement are required considering the long-term burden on public finance, and that thorough discussion is required on enhancing parenting support measures with the purpose of promoting migrations, since such measures do not necessarily have an impact on migrations at the national level. It should be noted that Nakazawa et al. did not analyze the origin and destination of migrations, and therefore, it is unclear whether migrations are mainly from neighboring municipalities or from distant regions. However, as is discussed in their thesis, better contents and levels of parenting support measures most likely prompt migrations from neighboring municipalities. Work is a major restraint particularly for rural migration, and it is easy to imagine that urban residents who have trouble finding nursery center vacancies may not be able to migrate to rural areas even if they want to, because of work. On the other hand, they can migrate to neighboring municipalities while keeping their job.

This means that in rural areas, enhanced parenting support measures by a municipality may lead to an unproductive race to win over households with small children among neighboring municipalities that also face depopulation. The return of populations from urban to rural areas would be desirable if it alleviates concentrated population in Tokyo; however, rural municipalities already exhausted with depopulation must avoid further mutual exhaustion through scrambling for residents with neighboring municipalities.

The discussions above lead to the hypothesis that enhancing parenting support measures financed by Hometown Tax Donations (1) causes neighboring rural municipalities to compete for residents. In addition, since the spread of telework mitigates the restraining factor of work in migration and settlement, it is also possible to hypothesize that such measures (2) promote migrations from urban to rural areas. In particular, donations to one’s hometown may trigger U-turn migrations. As for settlement, it can be hypothesized that such measures (3) suppress outflow of the child-raising generation.

I verified these hypotheses by analyzing the case of Kamishihoro Town in Hokkaido Prefecture. Since this is an analysis of a single case, results cannot be generalized; however, they should serve as reference in determining whether respective municipalities should enhance parenting support measures using Hometown Tax Donations.

## **6.4 Demographic Analysis of Kamishihoro Town, Hokkaido Prefecture**

### ***6.4.1 Analysis Method***

Ideally, the analysis should also include impacts by measures other than parenting support; however, according to an interview with the municipality, no major changes were made in other measures during the period subject to the analysis, and therefore, the impact of enhanced parenting support measures is presumed to have been dominant.

First, I verified the town's demographic data between 2012 and 2017 from the Basic Resident Register to clarify the breakdown of the rise in population. Kamishihoro Town falls under the jurisdiction of Tokachi General Subprefectural Bureau, whose economic activities are centered around Obihiro City and Otofuke Town, and therefore, Kamishihoro Town's population is susceptible to outflows to and inflows from these two municipalities. In addition, Shihoro Town lies between these two municipalities and Kamishihoro Town; thus, if enhanced parenting support measures by Kamishihoro Town have a large impact on surrounding regions, it should translate to migrations to and from these three municipalities. Meanwhile, if enhanced parenting support measures by Kamishihoro Town influence migrations to and from distant regions, this should translate to change in number of migrations to and from regions other than these three municipalities. I therefore conducted the analysis by dividing these three surrounding regions from the other regions. I first analyzed the change in number of people moving to and from Kamishihoro Town while defining those under the age of 40 as the "child-raising generation," and as a supplement, also analyzed results of a survey targeting those who moved to the town.

On a side note, Kamishihoro Town lies 38 km north of Obihiro City, which has a population of nearly 170,000, and is 70 km from Tokachi Obihiro Airport. The town is famous for wheat, beans, potatoes, and sugar beets, and its main industries are agriculture, forestry, and dairy (Fig. 6.1).



		CY2012	CY2013	CY2014	CY2015	CY2016	CY2017
Natural population change	Births	37	37	37	25	32	36
	Deaths	75	76	68	79	73	63
	Total	-38	-39	-31	-54	-41	-27
Social population change	Move in	234	256	178	225	258	303
	Move out	295	285	265	222	192	222
	Total	-61	-29	-87	3	66	81
Social population percent change (rank in Hokkaido)	-1.21% (143th)	-1.24% (65th)	-1.78% (175th)	0.06% (22nd)	1.36% (1st)	1.65% (1st)	
Population change	Social + natural	-99	-68	-118	-51	25	54

**Fig. 6.2** Trend in population of Kamishihoro Town. *Note* Social population change = (no. of people moving to Kamishihoro Town + no. of people moving from Kamishihoro Town)/total population of Kamishihoro Town. Note that only people moving within Japan are included (i.e., people moving to and from other countries are excluded). *Note* Created by the author from data on population, demographics and no. of households (by municipality, for Japanese residents) based on the Basic Resident Register by the MIC.

### 6.4.3 Trend in Number of People Moving to Kamishihoro Town, Hokkaido Prefecture

Next, I verified the breakdown of people moving to Kamishihoro Town by region of origin (Fig. 6.3). People moving to Kamishihoro Town consisted mostly of those from other regions within Hokkaido, with those from the three surrounding regions increasing drastically from 66 in 2015 to 93 in 2016. In 2016, those who moved from the three surrounding areas accounted for 36.2% of all people moving in. In addition, the number of people moving from urban areas (i.e., Tokyo, Kanagawa, Osaka, Chiba and Saitama prefectures) with insufficient nursery center capacities increased to 39 in 2015 and 38 in 2016. In 2017, while the number of people moving from the three surrounding areas and urban areas settled down, the increase in number of people moving from prefectures excluding Hokkaido and the above urban prefectures was significant, with over a twofold increase from 29 in the previous year to 64. This increase is also considerable relative to data of the prior five years.

While interpretation requires care since the absolute numbers are not large, if such trends are the result of enhanced parenting support measures by Shihoro Town, numbers may have been pushed up by people moving from the three surrounding regions who were attracted to such measures in 2015 and 2016, but may have settled in 2017 once such potential migrants were successfully secured. Meanwhile, it can also be interpreted that people moving from other regions across Japan increased in 2017 after a slight time lag owing to national media coverage of the town's initiatives in 2015 and 2016. Perhaps those who made Hometown Tax Donations in the past migrated to the town as well (especially U-turns). Kamishihoro Town has been

	CY2012	CY2013	CY2014	CY2015	CY2016	CY2017
Hokkaido						
Obihiro City	46	52	30	42	51	31
Otofuke Town				14	31	30
Shihoro Town	14				11	
Total of 3 surrounding regions	60	52	30	66	93	61
Sapporo City	23	28	22	18	19	23
Other municipalities	102	123	79	90	78	124
Total of Hokkaido	185	203	131	164	190	208
Tokyo	3	12	11	12	15	12
Kanagawa	1	4	10	6	5	7
Osaka	2	3	4	9	5	4
Saitama	2	5	1	9	4	6
Chiba	1	4	3	3	9	3
5 metropolitan prefectures	9	28	29	39	38	32
Other prefectures	28	35	18	23	29	64
Total of outside Hokkaido	46	91	76	101	105	128
Total	222	256	178	226	257	304
% of 3 surrounding regions	27.0%	20.3%	16.9%	29.2%	36.2%	20.1%
% of 5 metropolitan prefectures	4.1%	10.9%	16.3%	17.3%	14.8%	10.5%
% of Hokkaido	83.3%	79.3%	73.6%	72.6%	73.9%	68.4%
% of outside Hokkaido	16.7%	20.7%	26.4%	27.4%	26.1%	31.6%

**Fig. 6.3** Trend in no. of people moving to Kamishihoro Town. *Note* The blank spaces for Otofuke Town and Shihoro Town do not indicate zero people. Since the MIC database only displays data for migrations of 10 or more people between municipalities, the blank spaces represent unavailable data for migrations of fewer than 10 people. *Source* Created by the author based on “Basic Resident Register Population Movement Report.”

holding “Hometown Tax Donation Thanksgiving” events in the Tokyo and Kansai metropolitan areas since 2015, and making actual contact with donors.

I focused on the age of people moving in to verify the above aspects. I defined those under the age of 40 as the “child-raising generation,” and extracted data of such households as shown in Fig. 6.4.

This shows that the number of child-raising generation migrants from the three surrounding regions increased by more than twofold to 78 in 2016, with the child-raising generation accounting for 83.9% of all people moving from the same regions,

	CY2012	CY2013	CY2014	CY2015	CY2016	CY2017
3 surrounding regions	40	35	30	37	78	42
%	66.7%	67.3%	80.0%	56.1%	83.9%	68.9%
Other regions	121	148	95	120	127	181
%	74.7%	72.5%	64.2%	70.6%	77.4%	74.5%

**Fig. 6.4** Trend in no. of child-raising generation migrants to Kamishihoro Town. *Note* The ratio represents the ratio of those under the age of 40 to all people moving to Kamishihoro Town from the respective regions. *Source* Created by the author based on “Basic Resident Register Population Movement Report.”

Attributes of Respondents			Migration style	
Age Group			Unaccompanied	226 84.0%
10s	12	4.5%	Accompanied by family	43 16.0%
20s	122	45.4%	Total	269
30s	67	24.9%		
40s	33	12.3%	Reason for moving	
50s	10	3.7%	Work-related	206 76.6%
60s	10	3.7%	Desire to live in Kamishihoro Town	78 29.0%
70s	7	2.6%	Suitable housing	76 28.3%
80s	8	3.0%	Quality child-raising and education environment	32 11.9%
Total	269		Return to hometown	28 10.4%
			Free nursery fee	24 8.9%
			Extensive welfare measures	22 8.2%
			Other	21 7.8%
			Total	269

**Fig. 6.5** Results of a survey on reasons for moving to Kamishihoro Town. *Note* The survey targeted people who moved to Kamishihoro Town between August 2016 and July 2017 (no. of respondents = 269). *Source* Created by the author based on results of a survey by Kamishihoro Town

the highest ratio during the prior five years. The timing is consistent with the enhancement in parenting support measures which started in 2015, implying that such enhancements most likely attracted the child-raising generation from the three surrounding regions. Meanwhile, a significant increase was seen in 2017 for the other regions.

I will also introduce results of a survey research conducted by Kamishihoro Town targeting people who moved to the town regarding reasons for migration, although the period of the research is slightly different (Fig. 6.5).

The survey targeted people who moved to Kamishihoro Town between August 2016 and July 2017 (no. of respondents = 269). Attributes of respondents show that 75% belong to the child-raising generation under the age of 40, consistent to data in Fig. 6.4. The breakdown indicates that 226 (84.0%) moved unaccompanied, while 43 (16.0%) moved accompanied by their family. Regarding the reason for moving, “work-related matters” was highest (76.6%), followed by “desire to live in a rural area (Kamishihoro Town)” (29.0%), and “suitable housing (or rented home)” (28.3%). These top responses indicate that while the largest factor for the increase in population of Kamishihoro Town was work-related, living environment also holds a certain degree of significance. This is consistent with reports by prior studies on migration that living environment is important.

As for reasons related to parenting support measures, 32 respondents selected “quality child-raising and education environments” and 24 selected “free nursery fee.” While ratios to all responses is not high, ratios to number of respondents who moved accompanied by their family, which was 43, are 74% and 55% respectively, indicating that such factors have a large impact. Also, if a single person who moved to Kamishihoro Town for business reasons considers marriage or raising children

in the future, some would presumably decide to stay in Kamishihoro Town with its extensive parenting support measures.

A study by Nakazawa et al. (2015) indicated that increasing nursery centers promotes migrations of the child-raising generation, which is consistent with results in Figs. 6.4 and 6.5. Abe and Harada (2008) also presented an analysis that increasing nursery centers affects birth rates; however, Kamishihoro Town is not yet at that stage, and it is worth following up whether birth rate actually rises going forward. In summary, enhanced parenting support measures by Kamishihoro Town promoted migrations of households with small children from surrounding regions in the initial stage, and may have also prompted migrations from other regions after a slight time lag.

### 6.4.4 Analysis of Number of People Moving from Kamishihoro Town, Hokkaido Prefecture

Next, I will present the number of people moving from Kamishihoro Town, the other factor in the town’s social population change. Figure 6.6 shows that the number of people moving from Kamishihoro Town to other regions has been declining since 2014, which is when the amount of donations received by the town started to increase. By region, the number of people moving from Kamishihoro Town to Obihiro City, which used to be the largest portion, was 46 in 2015 (a decrease of 27 from the previous year), and fewer than 10 in 2016, and with this, the number of people moving to the three surrounding regions decreased drastically in 2016 to 37. Similar

	CY2012	CY2013	CY2014	CY2015	CY2016	CY2017
Hokkaido						
Obihiro City	69	56	73	46		36
Otofuke Town	21	42	30	31	22	30
Shihoro Town	18	19		14	15	
Total of 3 surrounding regions	108	117	103	91	37	66
Sapporo City	22	24	18	22	21	30
Other municipalities	85	103	96	80	106	68
Total of Hokkaido	215	244	217	193	164	164
Total of outside Hokkaido	59	45	47	29	27	61
Total	274	289	264	222	191	225
% of 3 surrounding regions	39.4%	40.5%	39.0%	41.0%	19.4%	29.3%
% of Hokkaido	78.5%	84.4%	82.2%	86.9%	85.9%	72.9%
% of outside Hokkaido	21.5%	15.6%	17.8%	13.1%	14.1%	27.1%

**Fig. 6.6** Trend in no. of people moving from Kamishihoro Town, Hokkaido Prefecture. *Note* The blank spaces for Obihiro City and Shihoro Town do not indicate zero people. Since the MIC database only displays data for migrations of 10 or more people between municipalities, the blank spaces represent unavailable data for migrations of fewer than 10 people. *Source* Created by the author based on “Basic Resident Register Population Movement Report.”

	CY2012	CY2013	CY2014	CY2015	CY2016	CY2017
3 surrounding regions	64	78	67	45	20	45
%	59.3%	66.7%	65.0%	49.5%	54.1%	68.2%
Other regions	137	132	119	95	123	116
%	82.5%	76.7%	73.9%	72.5%	79.9%	72.3%

**Fig. 6.7** Trend in no. of child-raising generation migrants from Kamishihoro Town, Hokkaido Prefecture. *Note* The ratio represents the ratio of people under the age of 40 to all people moving from Kamishihoro Town to the respective regions. *Source* Created by the author based on “Basic Resident Register Population Movement Report.”

to the number of people moving to the town, the number settled in 2017 and is slightly reverting to the historical average. As no other major change was detected, it seems outflow to surrounding regions was suppressed.

Similar to aforementioned numbers of people moving to the town, I defined those under the age of 40 as the “child-raising generation,” and analyzed the trend in number of people moving to the three surrounding regions and other regions, as shown in Fig. 6.7. In the three surrounding regions, the ratio of child-raising generation migrants declined in terms of both number and ratio in 2015 and 2016, but reverted slightly in 2017. Yet, in the other regions, such significant changes were not detected. In summary, although parenting support measures financed by Hometown Tax Donations seem to suppress outflow to the three surrounding regions, they do not seem to have much impact on suppressing outflow to other regions.

Results revealed that the impact of parenting support measures was different between those considering moving to the three surrounding regions, and to other regions. Basic Research on Social Security and Population Issues (National Institute of Population and Social Security Research, 2016) reported that the main reason for moving to current locations in the past five years was “mainly for housing-related matters (35.4%),” “work-related matters (12.7%),” “marriage or divorce (12.0%),” and “to accompany a family member (7.0%).” Presumably, residents of Kamishihoro Town moving “mainly for housing-related matters” used to consider moving to the three surrounding regions prior to the implementation of parenting support measures, but started prioritizing moving within the town after such measures were implemented.

As for “work-related matters,” which came in second, even if one’s workplace changed to Obihiro City, Otofuke Town or Shihoro Town, one does not necessarily have to move, and probably would consider staying in Kamishihoro Town to receive parenting support. On the other hand, if one must move far away because of work relocation, it will be difficult to continue living in Kamishihoro Town just because one wants to receive parenting support. Therefore, although parenting support measures affect those who are considering moving to the three surrounding regions, they do not seem to affect moves to other regions including for job relocations.

### **6.4.5 Summary of Analysis on Kamishihoro Town, Hokkaido Prefecture**

Analysis results unveiled that there was an inflow of households with small children from the surrounding regions in 2015 and 2016, and from distant regions after a slight time lag in 2017. As for impact on settlement, although outflow to the surrounding regions was suppressed in 2015 and 2016, outflow to distant regions was not. Kamishihoro Town decided to allocate all Hometown Tax Donations to the “Dream Fund for Parenting Support and Measures Against Declining Birth Rate” in 2014, and considering the consistency in timing, this may have affected migration and settlement of households with small children to a certain degree.

Impact of a single factor cannot be fully validated since this analysis only verified limited data and population change is affected by various intra-regional factors. However, in view of the hypotheses, the first hypothesis, which suggested that “enhanced parenting support measures financed by Hometown Tax Donations in rural areas generate competition with surrounding municipalities to win over residents,” is partly valid; yet it may also be possible that population inflow from surrounding regions ceases once potential migration needs are fulfilled. On another note, in the case of Kamishihoro Town, the number of children attending the free *nintei kodomoen*, which was the town’s focal initiative, was reaching maximum enrollment.

As for hypothesis (2), which stated that “such measures generate population inflow from urban areas,” it seems such measures had impact on some migrations from regions other than the surrounding regions, albeit not only urban areas, after some time. It was also revealed that such measures had a certain impact on promoting settlement of households with small children, as suggested in hypothesis (3). More specifically, measures did not suppress migrations to distant regions, which are presumably mostly work-related, but seemingly served to retain some potential short-distance migrations, by those seeking quality living environments and lifestyles, within the municipality.

On another note, since Kamishihoro Town’s initiatives were covered by numerous media, analysis results may have been influenced by such coverage. Without any media coverage, the extent of population inflow and suppression of outflow may not have been so large. In this respect, the increase in migrants from distant regions, as seen particularly in 2017, requires close attention.

## **6.5 Implications for Measures by Rural Areas to Promote Migration and Settlement or Increase Associating Populations**

Analysis results indicated that enhanced parenting support measures financed by Hometown Tax Donations in rural areas may generate competition to win over residents among neighboring regions, although for a short period of time, and propel

migrations from other regions after some time, while also suppressing potential population outflow to neighboring regions. Therefore, enhancing parenting support measures using Hometown Tax Donations may seem fairly appealing to rural municipalities.

Yet, it is difficult to determine whether disseminating similar measures among many municipalities is effective. This analysis suggested that such measures had certain effects on promoting population inflow from and suppressing potential population outflow to neighboring municipalities. However, if many municipalities follow in Kamishihoro Town's steps, competition for residents between neighboring municipalities will arise, possibly leading to an unwinnable zero-sum game amid national-scale depopulation. Meanwhile, results were unclear regarding the nationwide challenge of migrations from urban to rural areas. While partial optimization may be achieved on the part of each municipality, total optimization for the country as a whole will most likely not.

Thus, what each municipality should do is strive to increase visitors and interacting populations from distant areas, as seen in the cases presented in the first half of this chapter. The idea is to share people among multiple regions, rather than promote settlement. In terms of work, the spread and active use of teleworking, work sharing and crowdsourcing are desired. To the advantage of rural areas, such movements are gaining momentum especially on the back of the novel coronavirus pandemic.

With respect to increasing visitors, Kamishihoro Town is also actively interacting with private companies, for example, through demonstration trials of self-driving buses and drone life-saving contests. They are also building a rest house within the Naitai Highland Farm as a place for interaction, thereby developing a scheme that does not rely solely on enhanced parenting support measures.

An increasing number of regions are trying to raise interacting populations through deploying or conducting demonstration trials of smart cities, yet such efforts will end in vain if interacting populations disperse after such demonstrations end. Rather than drastically increasing populations through a large-scale measure, it is important to accumulate small yet sure steps to attract non-locals who will endorse the town in the medium to long run, and thereby steadily increase associating and interacting populations. In addition, it will be important to revitalize regions through industry-government-banking collaboration, as was discussed in the previous chapter.

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# Chapter 7

## The Role of Social Finance in Resolving Regional Issues—Recent Trends in Japanese Civic Crowdfunding



**Keywords** Civic crowdfunding · Silver democracy · Project-based Hometown Tax Donation · Resolving regional issues · Civic engagement

### 7.1 From Municipality-Initiated to Civic Engagement

This chapter explores the effective use of crowdfunding (CF) and Hometown Tax Donation in *machizukuri* and resolving regional issues. While the two are closely related, they differ slightly in terms of purpose of use, and thus, it is necessary to organize their respective characteristics and usability.

Historically, governmental bodies represented by municipalities would be expected to take a leading role in resolving regional issues; however, as symbolized by the frequent discussions surrounding “extinction of rural areas,” regional economies have been contracting on the back of depopulation, an aging society with declining birth rate, and decline in local industries among other factors, and many municipalities are finding it difficult to secure ample revenue source. At the same time, the ratio of citizens aged 65 or older to Japan’s total population is 28.4%, one of the highest in the world (MIC 2019), leading to intensified “silver democracy” where seniors increasingly influence politics, and municipalities are therefore compelled to prioritize the silver generation when dealing with regional issues. Against this backdrop, there are high expectations for social finance to become a new revenue source for resolving regional issues.

CF, introduced in the previous chapters, has been gaining much attention as a method of social finance. Unlike conventional investments or loans, funds are procured from “crowds.” There are many cases of CF worldwide, and several CF platforms dedicated to regional projects have also been developed in Japan. Additionally,

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

Japan deploys Hometown Tax Donation, a unique system that enables municipalities to procure funds. Hometown Tax Donation allows individuals to make donations to a municipality or municipalities of their choice. While attention is often centered on its gifts, the system was originally intended to generate new capital flow to rural areas. Below, I introduce cases where regional issues were resolved using CF and Hometown Tax Donation.

### ***7.1.1 Regional Issues that Cannot Be Dealt with as Desired***

The first case is of Osaka Women's and Children's Hospital, which is part of the Osaka Prefectural Hospital Organization. In 2017, they solicited donations through CF to purchase incubators for transporting newborn babies. They collected over 10 million yen, outstripping their target of 3 million yen, and were able to buy three incubators. Meanwhile, a Mainichi Newspapers article dated September 14, 2017 reported that "Numerous criticisms were made online, such as 'tax should be allocated with priority to such purchases'." Such online criticism was not targeted at the initiative itself, but at the fact that tax was not distributed to something as important as an incubator.

CF and Hometown Tax Donation are significant in that they uncover (i.e., make visible) social and regional issues. It is self-evident that the lack of incubators is a major issue for the region and society. However, municipalities with limited revenue source and human resource attend to social and regional issues by order of higher importance or priority. Why were funds and resources not directed toward these incubators? Who decides the priority of social and regional issues that need to be resolved? The local government and assembly do. The assembly is (or assembly members are) elected by local residents. And many voters are seniors. On top of the aging of society, there is a major gap between generations in voter turnout rate; therefore, assembly members, the assembly and municipality are compelled to prioritize issues related to the elderly. The incubator incident precisely depicts this. While no one would deny that the lack of incubators is a major issue, its priority is low because of the current social structure (of silver democracy).

When local governments attempt to resolve an issue, the required human resource or volume of paperwork is hardly different between a project (i.e., issue) worth 100 million yen and worth 1 million yen. Thus, the project (i.e., issue) worth 100 million yen is prioritized, leaving issues worth hundreds of thousands of yen or several million yen unattended. In the case above, one incubator costs 3 million yen, which is not a large amount.

### ***7.1.2 Democratization in Securing Budgets Within a Local Government***

Next, I will introduce a case of Imabari City, Ehime Prefecture, which faced the issue of animal damage including by wild boar, and in response, procured funds through CF-style Hometown Tax Donation to finance the opening of Shikotsu Ramen Restaurant, which used wild boar bone for broth. The project, which aimed “to kill two birds with one stone” by resolving a regional issue on the one hand and producing a new local specialty on the other, successfully met its target of 4 million yen. The financing method of this project was proposed not by the city’s Finance Department, but by the Regional Promotion Office. CF-style Hometown Tax Donations can be procured independently by respective departments.

Normally, when respective departments need funds, they draft a budget plan from the summer of the previous year and submit the plan to the planning and finance departments, at which point, they face the aforementioned problem of issue prioritization. While animal damage measures are undoubtedly important, its priority would be low and budget would not be allocated under ordinary circumstances. Even if budget were to be allocated, it would be largely discounted and only available one year later, which is unimaginably slow by private-sector standards. Since the project will start from there, it would take about two years to resolve the issue.

On the other hand, using Hometown Tax Donation or CF will drastically accelerate the process. Additionally, it will be possible to find those concerned with this issue from across Japan since funds are procured online. Moreover, information can be disseminated widely through SNS or other media. Such initiatives may even be covered by major media outlets. The largest “issue” for social and regional issues is garnering interest and awareness. In this respect, Hometown Tax Donation and CF are exceptional.

The fact that individual departments in local governments can now procure their own funds can be interpreted as democratization in securing budgets. Major issues for the minority or socially vulnerable would take forever to resolve under the current system where budgets are secured based on a majority-rule democracy. Both incubators and animal damage measures only required several million yen. The outcome of a 100-million-yen project would hardly be influenced by cutting back several million yen. In contrast, the impact of redirecting that several million yen toward an issue with no budget at all would be significant. Local governments are of course aware of this fact. However, they are unable to secure the resource, including personnel, that would be required if several million yen from a 100-million-yen project is redirected to a new purpose; hence, the 100-million-yen project is implemented as is.

The significance of Hometown Tax Donation and CF is that it sheds light on and solicits empathy for small social and regional issues.

## **7.2 Distinction in Features and Usage of CF and Hometown Tax Donation**

### ***7.2.1 Difference in Restrictions of Project Owners and Tax Benefits of Funders***

In principle, municipalities are the ones who procure funds in Hometown Tax Donation. On the other hand, CF can be implemented not only by municipalities but by anybody or any organization with the will, including companies, individuals and non-profit organizations (NPOs). The most distinct feature of Hometown Tax Donation's framework is that it can only be used by municipalities. Accordingly, funders' tax benefits also differ. Hometown Tax Donation is subject to cash back in the form of inhabitant tax credit and income tax return for any amount exceeding 2000 yen. In contrast, CF does not accompany tax benefits in most cases, and funders pay the entire amount out of their pockets. Although some cases of CF are subject to tax benefits, the amount is not as large as that of Hometown Tax Donation since benefits comprise deductions from income. Thus, in terms of actual out-of-pocket burden of funders, Hometown Tax Donations would be more economical.

### ***7.2.2 Effects on Project Owners***

By using the Hometown Tax Donation framework, individuals or organizations seeking to procure funds can benefit from endorsement by a municipality. Meanwhile, municipalities can save resource if local individuals, NPOs or companies procure funds and resolve regional issues through the Hometown Tax Donation framework. Accordingly, some municipalities have started accepting public applications for projects seeking to resolve regional issues using Hometown Tax Donation.

In such applications, municipality's assessment of the project and project owner becomes important. For example, Kobe City, Hyogo Prefecture, aided local incubation of private companies and individuals using the Hometown Tax Donation framework. They accepted applications from and assessed prospective businesses, and the accredited businesses were allowed to procure funds through a CF web portal. The accredited projects were introduced on the site as being subject to Hometown Tax Donation, and funders could receive the same tax benefits as that of Hometown Tax Donation. Similarly, Sumida Ward, Tokyo, deploys a CF-style Hometown Tax Donation titled "Sumida Dream Endorsement Project," and aids businesses implementing projects within the ward. In this way, private businesses can implement CF using the Hometown Tax Donation framework with an aim to resolve regional or social issues.

In contrast, CF alone can be used more flexibly relative to Hometown Tax Donation. Project owners can apply directly to CF web portals without going through municipal screening. It should be noted that since CF web portals also conduct

screening, not all prospective projects end up being listed. However, while Hometown Tax Donation requires that projects serve to resolve regional issues, CF does not have such restrictions. Thus, projects can be designed more freely.

In summary, CF that does not depend on the Hometown Tax Donation framework is used to finance independent projects by individuals, companies and NPOs among other players, and its funders consist mostly of people associated to or close to the project owners; meanwhile, CF based on the Hometown Tax Donation framework undergoes public application and screening, and is used to resolve regional and social issues.

While projects that use the municipality-led Hometown Tax Donation framework are most definitely carried through since they are subject to public application and screening, the quality of projects listed on CF web portals are mixed since the hurdle for listing is lower. This implies that funders must assess the quality of projects themselves. In reality, there are cases where projects are not carried through as initially planned even after funds are secured through CF.

### 7.3 Civic Crowdfunding

Civic crowdfunding (CCF), which specializes in resolving community issues, is becoming widespread in the US and UK. A Japanese version of CCF is also gaining momentum, where funds are collected using the CF or Hometown Tax Donation frameworks to resolve regional issues (Japanese CCF). We explore the prospects and issues of such CCF below.

While CCF is a new type of CF, it differs from conventional CF in that funds are solicited from citizens to resolve community or social issues. CCF helps resolve wide-ranging regional issues, although its market size is not large, CCF helps resolve wide-ranging regional issues, including social, educational and cultural events, and is known to produce various public property (Charbit and Desmoulin 2017). This indicates that CCF offers a major opportunity for citizens, civic organizations and local governments to use funds for projects that benefit the public. CCF generates a flow of citizen's money to specific projects (Stiver et al. 2015), and is gaining attention as a prospective alternative revenue source amid the tightening of governmental budgets (Gray 2013).

According to a research conducted by Davies (2014) of 1224 CCF projects, based on data collected from seven CCF platforms in four countries between June 2012 and March 2014, 711 projects achieved their target amount. The average amount procured by all projects was 204.36 dollars, while the average amount procured by projects that achieved their target was 9502 dollars. Davies classified the projects into 15 categories. The analysis revealed that the largest portion of projects was "park and gardens" (one-fourth of all projects), followed by "events" and "education and training" (one-fourth of all projects, combined). CCF is being used to resolve issues related to local public properties, such as small gardens and parks in large cities, and tends to benefit those living in the local or neighboring communities.

Meanwhile, it has been pointed out that natural disaster relief efforts are more likely to secure donors from both within and without a region (Charbit and Desmoulin 2017). In summary, CCF can be regarded as an effective financing method not only for resolving regional issues that benefit local residents but also for social issues such as poverty and national disasters.

## **7.4 Recent Trends in Japanese CCF Using Hometown Tax Donation**

### ***7.4.1 Overview of Japanese CCF***

Japanese CCF mainly involves procuring funds in a manner similar to CF under the Hometown Tax Donation framework to conduct specific projects that resolve municipal issues. Trustbank, Inc., which operates a Hometown Tax Donation web portal, started Japanese CCF under the name “government crowdfunding (GCF)” in September 2013, and the same scheme is now being offered by other web portal providers as well, including, i-mobile Co., Ltd., under the name “Furunabi Crowdfunding” from April 2018, and Satofull Co., Ltd., a corporate member of SoftBank Group Corp., under the name “Satofull Crowdfunding” from May of the same year (Nihon Keizai Shimbun 2018).

Japanese CCF aims to resolve regional issues by designating specific projects as the usage of Hometown Tax Donations, and soliciting donations from empathizers across Japan. Even when the target amount is not reached, donations are not returned to donors, and projects are deployed according to procured amount, for example by extending the period or with municipal financial aid for the shortfall. While donors could previously only designate usage of donations by general categories such as “education,” “welfare” or “industrial promotion,” Japanese CCF enables donors to select and donate to specific projects. This is effective in “fostering tax payers’ awareness toward tax,” one of the original objectives of Hometown Tax Donation, and also offers citizens an opportunity to gain interest in social issues. In addition, it is easier to implement projects targeting the younger generation, those raising children, or the socially vulnerable, to which budgets are normally difficult to allocate in a silver democracy.

Adhikary et al. (2018) pointed out that Japanese CF differs from western CF, which is oriented toward short-term profits, in that it is based on relationship and tends to establish long-term relationships, suggesting that Japanese CF may produce benefits for communities and stakeholders. While recent trends in Japanese CCF are consistent with overall trends in Japanese CF, there is a high possibility that it will develop further going forward.

Japanese CCF enables taking speedy measures. Although obtaining consensus within the municipality requires some time, once a project is launched, funds can be procured immediately within a certain time frame, after which funds can be

used immediately. Normally, budget planning requires adjustments by the strategy and finance department as well as approval by the assembly, whereas, in the case of Japanese CCF, the department that oversees the issue can take charge of financing and deploying the project. According to an interview with Imabari City, Ehime Prefecture, the reason they used Japanese CCF was because it enabled the department in charge to take ownership.

Additionally, since funds procured by Japanese CCF are additional revenue on the part of municipalities, it will be possible to avoid competitions for budget share within the municipality as well as the issue of prioritization among local problems. The negative aspects of a silver democracy can also be avoided. Another important point is that although municipal revenue will increase, this will not affect the amount of local allocation tax grants received by the municipality the following fiscal year, as would be the case with normal tax revenue, since donations are secured from outside the region.

#### ***7.4.2 The Current Status of Japanese CCF***

According to data of Furusato Choice, a Hometown Tax Donation platform which deploys the most Japanese CCF projects, 445 projects were deployed as of May 20, 2019, among which 175 reached their target amount. It is noteworthy that Furusato Choice also deploys Japanese CCF based on wide-area collaboration. This is a system where multiple municipalities collaborate to solicit donations for issues common to municipalities across Japan. Such CCF is implemented based on the idea that collaboration by multiple municipalities should boost promotion of social issues and enable soliciting donations more effectively. In fact, while the rate of achieving target amounts for all Japanese CCF in Furusato Choice was 39.8%, the same rate for Japanese CCF based on wide-area collaboration was higher at 55.1% (as of May 2019).

Looking at the data more closely, in terms of number of Japanese CCF projects based on wide-area collaboration, incubation accounted for nearly half. This symbolizes the high expectation toward regional economic revitalization through producing local entrepreneurs. As for amount of funds procured, large amounts were collected by social issues such as disaster relief efforts, animal protection and child poverty. Average donation amount is largest for disaster relief, with all but one project achieving their target amount. Large amounts of funds are flowing to issues that draw extensive attention from society, such as natural disasters in rural areas, which is consistent with the finding by Charbit and Desmoulins (2017) regarding disaster relief support in CCF.

### ***7.4.3 Using Japanese CCF for Disaster Relief***

The movement to donate through Japanese CCF for restoration of disasters—including heavy rain, earthquakes and heavy snow, which occur year after year—has been gaining a foothold. Most recently, Japanese CCF has been used extensively to support healthcare workers and businesses affected by the novel coronavirus pandemic. Since the Hometown Tax Donation framework is used, donations are sent directly to the municipality without deductions such as for operating fees by intermediary organizations, and roughly the entire amount can be directed to affected areas (or people). The presence of Japanese CCF using the Hometown Tax Donation framework has likely helped donors excavate new disaster relief funds.

Also, an important factor in disaster relief is to not let memories fade and to report progress to supporters. Hometown Tax Donation web portals can help prevent the fading of memories and keep supporters informed, since such portals function as media and are visited repeatedly by donors. Relief efforts can be enhanced by posting information not only on donations but also on other necessary human or material support, such as volunteers or provision of supplies.

Furthermore, a scheme for delegated donations is also being established. This is a scheme where other municipalities support a disaster-hit municipality that is too busy with reconstruction operations to handle reception of Hometown Tax Donations, by managing reception operations in their place. There are also new initiatives where unaffected municipalities donate 3% of the Hometown Tax Donations they received to the disaster-hit municipality. In this way, Japanese CCF can be used flexibly across the nation since a uniform Hometown Tax Donation system is adopted by municipalities throughout Japan. While there are various debates regarding the pros and cons of Hometown Tax Donations since many people donate mainly to receive gifts, the active use of Japanese CCF for disaster relief continues to be desired.

## **7.5 Collaboration with Private Companies Using Japanese CCF**

### ***7.5.1 Projects that Succeeded by Creating a Consortium***

One characteristic of Japanese CCF is that some projects have been achieving greater levels of success by collaborating with private companies. For example, the “Children’s Meal Delivery Project” targeting impoverished children and deployed by Bunkyo Ward in Tokyo using Japanese CCF collected donations largely exceeding their initial target; this success was achieved through collaboration among the municipality, an NPO, and a private company. More specifically, NPO Florence, which offers such services as sick child care, was the project owner, while the Bunkyo

Ward municipality managed reception of donations, and LINE@ was used as a tool for communicating with families potentially in need of meal deliveries for their children.

Normally, if an NPO tries to procure funds and deliver meals to children, it will be difficult to yield intended outcomes because of disadvantage in terms of public trust. However, trust will rise drastically with municipal endorsement. At the same time, municipalities are not necessarily apt at promoting their efforts to the public or approaching residents who may need certain services. Thereby, the NPO proposed using LINE@ as a communication tool—something the municipality had never considered. This makes it easier both physically and psychologically to make inquiries about or apply to children’s meal delivery, relative to conventional methods such as sending documents by post, calling, or submitting documents directly at the ward office.

In fact, the number of applications for meal deliveries significantly surpassed expectations owing largely to adopting LINE@. This led to the implementation of a second round. This case is elaborated in “2017 Regional Revitalization Using Crowdfunding Study Group Report” (Osaka Prefecture Municipal Development Foundation).

This children’s meal delivery case succeeded because a consortium was created among various players including a municipality, NPO and private company.

### ***7.5.2 A Framework Where Local Issue Awareness and Active Individuals and Companies Back Up Municipalities***

Aside from the aforementioned case of Bunkyo Ward, a number of Japanese CCF have been deployed through collaboration among municipalities, private companies and NPOs, among others. Kamiyama Town, Tokushima Prefecture, deployed a project for developing new products using cedar with an aim to resolve the issue of reduced water retention of unlogged cedar plantations. Utsunomiya City, Shimane Prefecture, deployed a project for institutionalizing community nurses—a progressive version of home-visiting nurses—in the region. This involved creating numerous locations within the region where patients could meet nurses, prompting a shift from medical care that waits for patients to visit hospitals, to preventive medical care that goes beyond the hospital walls. The introductory page of each project includes project details along with the “passion” of project owners, which arouses empathy. The more supporters, the more donations will be collected, enabling projects to be deployed.

Japanese CCF should advance further if motivated private companies and NPOs partner with municipalities that wish to enhance resident services but lack the resource and public messaging abilities. In fact, Saga Prefecture offers opportunities for NPOs not only within the prefecture but across Japan to resolve regional and social issues using Japanese CCF under the prefecture’s Hometown Tax Donation

scheme. Motivated NPOs will gain a reliable partner, while Saga Prefecture will be able to revitalize the region by attracting NPOs.

## 7.6 Effects of Japanese CCF on *Machizukuri*

One positive side effect of Japanese CCF is that it offers municipalities an opportunity to think about *machizukuri*. Although the Hometown Tax Donation scheme is used to procure funds, in the case of normal Hometown Tax Donation, municipalities will first focus on procuring funds and think of their usage later; thus, they will be engrossed in procuring attractive gifts. Once donations are collected, municipalities will set them aside and mull over their usage. In due course, departments within the municipality will start saying they want to use donations to supplement general revenue, and while attending to each demand, donations—collected with much effort but used for numerous, inexplicit purposes—will disperse into thin air. Or local residents may complain that they “are not benefitting from Hometown Tax Donations,” whereby, the municipality may end up building a tangible, visible *hakomono* (i.e., public building). There have been countless cases in the past where municipalities ended up suffering from massive maintenance expenses thereafter.

On the other hand, when using Japanese CCF, specific usage of funds is determined beforehand, and hence, important prospective issues of the region will be unearthed in advance. Also, since funds are sourced from outside the region, it is easier to spend funds not only on local residents but for external purposes, such as promoting migrations or attracting satellite offices and venture businesses. Municipal administration thus far has relatively been confined to cutting back on public works in response to reduced revenues or to cut expenses, and money was hardly ever used strategically, nor was deliberation extended to future-oriented *machizukuri*. On the other hand, implementing Japanese CCF requires a shift toward positive thinking, thereby offering municipalities an opportunity to contemplate *machizukuri*. Additionally, by offering opportunities to collaborate with companies and NPOs, Japanese CCF may lead to more dynamic ideas for increasing associating populations. Moreover, while regions rich in primary products tend to be of advantage in regular Hometown Tax Donation, with CCF, urban areas are not disadvantaged, as seen in the case of Bunkyo Ward, Tokyo.

## **7.7 Potential Issues of Japanese CCF**

### ***7.7.1 Possibility that Unappealing Projects Have Higher Local Demands***

When implementing Japanese CCF, explicitness and comprehensibility of projects are important in successfully procuring funds, since funders are non-locals. One issue that will arise in this respect is whether non-locals would understand what the truly important issues are in that region. Even if a certain issue is important for the region, it may not gain much support from non-locals if it is indistinct and therefore unappealing. This may ultimately cause a competition in the CCF market to achieve higher levels of uniqueness. For example, which would attract more attention: a project for sewerage development in a specific rural area or for road-side flower-planting in view of the Tokyo Olympic and Paralympic Games? How about in comparison with projects that are easier for people to empathize with, such as culling of dogs, medical treatment, or poverty measures? All such issues which seek to be resolved through Japanese CCF are important for the region and society. However, since competition among projects is unavoidable, projects may end up placing excessive emphasis on uniqueness and conspicuousness, or on trying to generate empathy. For now, such concerns prove unfounded; yet close attention is required going forward as this is a potential issue.

### ***7.7.2 Regional Issues Versus Social Issues***

Another concern is the distinction between regional and social issues. Since Hometown Tax Donations are made to specific regions, there is not much resistance in using the money to resolve regional issues. However, when resolving social issues that are not specific to the region (e.g., treatment for intractable diseases), locals may question why that issue needs to be dealt with by their municipality, or why it is not addressed by the central government. Regarding this matter, rather than throwing cold water on Japanese CCF by debating the distinction between regional and social issues, it is better to first allow Japanese CCF to take root in society, uncover various regional and social issues, and then contemplate what revenue source and method should be used to resolve each issue.

### ***7.7.3 Pros and Cons of Municipal Involvement***

This holds true to Hometown Tax Donation in general, but it is necessary to be able to explain why projects need to be deployed by a municipality. Also, since trust of the general public toward the project will rise if the municipality is a project

member, influence peddling must be avoided especially when collaborating with private companies or external organizations. At this stage, however, it is probably better to prioritize promoting public–private partnerships, which are finally taking shape, since municipal administration thus far tended to be oversensitive about profit-sharing in collaborations with private companies or external organizations, and was therefore unable to take flexible actions toward resolving regional issues.

Municipal involvement is a must in Japanese CCF deployed under the Hometown Tax Donation scheme, and therefore, burden will be imposed on municipalities. Thus, the viability of Japanese CCF in a certain municipality will depend on whether or not there are motivated municipal staff.

Also, donors benefit from tax returns in Japanese CCF discussed thus far, since it is a form of Hometown Tax Donation; however, receiving tax benefits is difficult if the same project is deployed using regular CF. Going forward, the presence of Japanese CCF could possibly hinder the spread of regular CF projects that aim to resolve regional issues. Regarding this aspect, the next section examines Japanese CCF that is implemented as regular CF.

## **7.8 Japanese CCF Implemented Through a Regular CF Platform**

Japanese CCF discussed thus far requires municipal involvement since it uses the Hometown Tax Donation framework. However, at times, it may be better to deploy CCF based on the regular CF scheme rather than the Hometown Tax Donation scheme; for example, when trying to resolve regional or social issues that are not fit for municipal engagement, or when flexibility will be lost by municipal interference. Although CCF based on regular CF will be inferior in terms of aforementioned tax benefits, it is more convenient in the sense that motivated individuals, organizations or companies are given more discretion when launching projects.

READYFOR, Inc., a leading CF web portal provider, handles many projects in this field. Especially in 2020, many projects were launched in support of healthcare workers fighting against and businesses affected by the novel coronavirus. When in need of urgent support, as in the case of the novel coronavirus pandemic, needs may be better met through independent deployment of CCF by individuals or companies. Also, more flexibility will be allowed when restricting support to specific region or people, since the issue of municipal accountability can be avoided without their involvement.

I analyzed 65 projects that had procured the largest funds up till June 2020 on the READYFOR platform, and 24 were donation-based, while 41 were purchase-based. Yet, among the 41 purchase-based projects, only one was for product development, with the rest consisting mostly of projects for organizing community events or creating a hot spot for medical, welfare or educational purposes. In other words, purchase-based projects on READYFOR mainly consisted of projects for engaging

in the local community. The funder base sought by venture businesses or SMEs that want to deploy purchase-based CF to develop products or businesses, and the funder base using READYFOR is likely different; therefore, projects that fall under so-called CCF are highly compatible with READYFOR.

Among the 65 projects, 22 were for medical support (including 8 for cancer treatment research, and 5 for supporting university research in other fields), while 5 were implemented by local chambers of commerce and industry. Medical support is more of a social issue than a region-specific issue of a single municipality, and requires support that extends beyond municipal boundaries. Therefore, it may be less convenient to use CCF through Hometown Tax Donation in which municipal boundaries are a given. On the other hand, projects implemented by chambers of commerce and industry were mainly for supporting local restaurants whose revenues were dented by the pandemic; if the municipality were to provide such support, it could face difficulty explaining to the public why support is restricted to restaurants. Hence, CCF through Hometown Tax Donation may also not be suitable when support is restricted to certain targets.

As such, it may be possible to distinguish the use of CCF through Hometown Tax Donation and through regular CF by applying the former to regional issues that municipalities acknowledge need to be resolved, while applying the latter to more widespread social issues. The hurdle for deployment is likely higher when using Hometown Tax Donation since funds will be sourced from tax. CCF based on regular CF may function as an alternative means for clearing this hurdle.

## **7.9 Summary: Toward Further Advancement of Japanese CCF**

This chapter discussed the prospects of resolving regional issues with civic participation using CCF. Both schemes of Hometown Tax Donation and CF may be used. Such CCF is significant since it not only allows financing but also plays a major role in uncovering regional and social issues, and is also effective in medical care or disaster relief support. Moreover, it serves to democratize the process of securing budgets for resolving such issues.

Under a silver democracy, CCF may be leveraged further as a means to resolve the issue of regional revitalization. Since such CCF is still at its early stage, detailed analysis remains to be done, and studies must be accumulated from various perspectives, which may include impact of CCF donors' attributes and municipality size on donation amount, or outcomes of projects.

Also, with regards to potential improvements of the system, it may be necessary to consider offering tax benefits, similar to that of Hometown Tax Donation, for CCF that resolves regional issues outside the Hometown Tax Donation framework.

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# Chapter 8

## Implications for Regional Development Drawn from the Hometown Tax Donation System—Aiming to Produce Regional Entrepreneurship



Hometown Tax Donation is a system where citizens donate to a region or regions they wish to endorse or support, and receive tax credit benefits in return. In effect, donors only pay 2000 yen out of their pockets. In addition, the system is a “bargain deal” since each municipality offers reciprocal gifts worth up to 30% of the donated amount, and donors essentially receive goods worth more than the 2000 yen they actually paid. On another note, donors can also choose not to receive gifts, in which case, the entire donation will be at the disposal of the municipality. In fact, when the Hometown Tax Donation system is used in civic crowdfunding-style, such as for disaster relief efforts or to resolve regional issues, gifts are often not offered or donors mostly decline gifts.

This system, which involves transfer of a portion of tax by residents’ will, would be considered unacceptable in conventional theories of tax systems or local government finance, and is an irregular system to say the least. There are quite a few who oppose to the system itself, especially those specializing in the fields of tax systems and local government finance. Yet, there has never been a system that directed so much interest of urban residents toward rural areas, and in this respect, the Hometown Tax Donation system offers several insightful implications for considering regional development policies.

In Japan and many other advanced countries, there is no denying that issues of an aging society with declining birthrate, urbanization, and depopulation are imminent. Against this backdrop, we are faced with the challenge of contemplating how to manage each region, and ultimately, the entire country in a sustainable manner, and are still seeking solutions. To gain inspiration in this respect, this book verified the impact that Hometown Tax Donation and other systems have on regional revitalization and development from various aspects.

Chapter 2 outlined the need of municipalities to shift from conventional “administration”-oriented thinking to “management”-oriented thinking amid a situation where municipal revenue source must be secured independently rather than by depending on the central government. More specifically, it will become important to

define non-locals as new customers of the region and establish marketing strategies targeting them. In other words, rural areas must obtain “foreign currency” by selling local products outside the region, and boost the circulation of people, goods and capital by increasing interacting populations.

Chapters 3 and 4 analyzed the impact that Hometown Tax Donation gifts has on local businesses. Analysis revealed that many of the gift providers were small enterprises who had not yet entered the e-commerce market. They not only lacked personnel and capital resource needed to execute online sales but did not have any know-how to begin with. Such businesses were offered the opportunity to deliver their products to non-local consumers owing to the emergence of the gift market, as well as support from municipalities in operations that come with normal online sales, such as order management, packaging and delivery, and customer (i.e., donor) support.

This implies that the gift market is serving as a *dojo* for fostering rural companies and SMEs, and suggests that creating demand in advance can instigate entrepreneurship by local businesses. Meanwhile, it is critical for regions and such businesses that a scenario be created where such businesses graduate from the *dojo* and strive competently in the regular e-commerce market, thereby actually earning “foreign currency.” As long as the *dojo* remains to be a *dojo*, it will lead to mass production of businesses that rely indefinitely on the system of the Hometown Tax Donation gift market, which would be no different from conventional SME support measures that are dependent on subsidies, and therefore would not be sustainable. This aspect will be the next challenge. This book introduced cases where gift providers successfully exited the gift market, or used the gift market as a foothold for extending their business to the real e-commerce market. Each region needs to make a concerted effort to increase such cases.

To do so, support by regional financial institutions is also an important element, as described in Chap. 5. Ideally, regional financial institutions should not only extend loans but also serve a consulting role, and support local businesses together with chambers of industry and commerce and municipalities. As was revealed in analysis results, regional financial institutions are also aware of the positive impact that Hometown Tax Donation has on enhancing management capabilities of local businesses and revitalizing regions. However, financial institutions themselves have not yet reached the level of changing their lending activities. This may be because the size of each business is small or because both businesses and financial institutions are hesitant to make investments related to the gift market; however, taking a wait-and-see stance will cause opportunities to slip away amid the intensifying nation-wide competition to capture customers (i.e., donors) in the gift market. It is essential to foster an investment-oriented mindset in regional revitalization through industry-public-banking collaboration.

Chapter 6 explored the increase of associating and interacting populations. Survey results have revealed that those who make Hometown Tax Donations feel attached to the region, and as the next step, it is necessary to encourage such people to visit the region. The chapter introduced initiatives deployed by regions for increasing associating and interacting populations. Meanwhile, not a few municipalities have aimed to

attract migrants or retain existing residents using funds procured through Hometown Tax Donation, and the MIC and media have described such cases as best practices; I therefore analyzed enhanced parenting support measures by Kamishihoro Town, Hokkaido Prefecture, financed by Hometown Tax Donations, as well as their impact, to validate the effectiveness of measures to attract migrants or promote settlement using Hometown Tax Donations.

While results cannot be generalized since demographics can be influenced by various factors, analysis results implied that enhanced parenting support measures may have an effect on attracting migrants from neighboring municipalities and retaining residents (i.e., suppressing population outflow). On the other hand, it was unclear whether such measures had sufficient impact on attracting migrants from distant areas, especially urban areas. This analysis provided two implications. Firstly, if rural municipalities become fixated on winning over residents, this could lead to a scramble for residents among neighboring municipalities, whereby, rural areas, already exhausted to begin with, would be embroiled in unproductive and exhausting competition among neighboring municipalities. On the other hand, the fact that such measures contribute to suppressing population outflow of the region should be deemed appealing for rural areas that face severe population outflow. Since halting population outflow is a significant challenge for rural municipalities, some municipalities would presumably be inclined to carry out measures for securing residents, represented by parenting support measures, even if this fuels competition with neighboring municipalities. There is no stopping such actions from the perspective of partial optimization.

However, what municipalities should actually strive to do is develop population policies targeting wider areas, such as promoting migrations from urban to rural areas, and small municipalities should avoid competing against each other over limited resource.

Chapter 7 referred to civic crowdfunding that uses Hometown Tax Donation to resolve regional and social issues. The fact that procuring funds through Hometown Tax Donation or crowdfunding enables resolving imminent issues that cannot be attended to otherwise under a silver democracy, will be significantly valuable in sustainable regional development. This will allow more flexibility in the process for securing budgets within local governments, and enable strategic investments that the region believes are necessary for its future. Achieving differentiation through gifts is no longer easy now that the value of gifts has been capped to 30% of donated amount according to 2019 law revisions; therefore, it is important to attract donors by effectively gaining their empathy for the story behind the regions' *machizukuri*.

In addition, soliciting donations by presenting their effective usage is consistent with the originally envisioned form of Hometown Tax Donation. Moving forward, an increase in the number of regional and social issues that are resolved through civic engagement by using civic crowdfunding, should lead to regional revitalization and development. This will ultimately help boost associating and interacting populations, and contribute to forging an economy where people, goods and capital circulate between urban and rural areas.

It is imperative that policy makers leverage the above policy implications and that local businesses seize new businesses opportunities and extra-regional sales opportunities that they would not have been able to on their own. To achieve this end, it is necessary for rural areas to foster an entrepreneur mindset and make a full-fledged effort to create a culture where challenges, however small, are actively taken on.

One thing we should bear in mind, and which would be an area for future research, is that this system needs continuous improvement. 10 years have passed since this system was introduced in Japan, during which time there were several reforms. One major argument arising from this system is that it might be amplifying the budget imbalance among rural municipalities. Also, since the majority of people participating in Hometown Tax Donation reside in urban areas, those areas are losing tax revenues. We should avoid a situation where the system benefits only a handful of municipalities and increases inequality between urban and rural areas, as well as among rural municipalities. Long-term effects deriving from this system are yet to be examined carefully.

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