Innovative Approaches to MSMEs’ Digital Financing:

The case of “Securite”

Kotaro Yamabe
Music Securities, Inc.

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About Myself

Kotaro Yamabe

University of Tokyo (LL.B., 2004 and J.D., 2006)

2007: Became attorney-at-law (*bengoshi*) in Japan

2007-2012: Associate at Nagashima Ohno & Tsunematsu

2012-2014: Deputy Director at Financial Services Agency of Japan (responsible for drafting legislation regarding investment-based crowdfunding in Japan)

2014-2015: University of Cambridge (Master of Corporate Law)

2015-2017: Legal Director at Music Securities, Inc.

2017-2018: Deputy Director at Ministry of Land, Infrastructure, Transport and Tourism of Japan (responsible for making rules regarding real estate crowdfunding in Japan)

2018-present: Chief Legal Officer of Music Securities, Inc. (Director since 2020)
History of Music Securities

2000
- Start of business and the first music fund

2007
- Junmai Sake Fund for Shinkame Shuzo (introduced by DBJ)

2008
- Registered with the Financial Services Agency of Japan as “Financial Instruments Business Operator”

2009
- Launched Impact Investment Platform “Securite”
  - Integrated several services/categories such as music and sake into one web-based platform to manage account and customer information in the one system. It extended business opportunities for a wide range of industries and customers

2011
- Launched Disaster Area Support Funds
  - Utilizing the experience and function of “Securite”, introduced a unique financial scheme based on half-donation and half-investment to support business owners in the disaster area of the Great East Japan Earthquake

2019
- Started alliance with Kyoto University Graduate School of Medicine and University of Tokyo to raise funds for university research

2020
- Launched “Glocal Crowdfunding Inc.”, a joint venture company with Kyushu Financial Group
- Started alliance with Rakuten Securities

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How Securite works

Fund raising based on business plan

Choose Investment Reminder
Offering

Individual investors based on empathy

Revenue-sharing Agreement

Securite

Invest

Due Diligence

Fee

Invest based on performance

Return (monetary / non-monetary)

Company running business related to SDGs

Revitalize local business

Gather investors

Realize business plan

PR

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How Securite changes MSME’s and entrepreneurs’ finance

Before

<table>
<thead>
<tr>
<th>Banks</th>
<th>VC</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

| MSMEs | Entrepreneurs |

| City   | Local |

Issue

Many MSMEs & entrepreneurs cannot access finance

- Geographical limitation
  - Relying on local financial institutions, not enough chances to be financed
- Limited approaches to be financed
  - Banks do not provide loans without collateral
  - Individuals have limited chances to support with their money

Currently with Securite

| Individual investors with empathy across the nation |

Solution

Empathy based financial inclusion

- Finance across the nation
  - Individuals can invest in MSMEs & entrepreneurs that they want to support anytime anywhere, through our online platform “Securite”
- Gather investment from individuals with empathy for MSMEs’ & entrepreneurs’ business

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Funds we provide

- **Not capital-safe & no personal guarantee or lien**
  - Raise funds from individual and corporate investors with empathy

- **No acquisition of shares**
  - Investment without acquiring shares, thus company ownership will not be transferred

- **Planning return flexibly**
  - The timing of payment can be set according to each business plan (Approximately 1~10 years)
  - Return will be calculated based on business performance
Revenue-sharing Agreement

- Business operators pay a pre-agreed ratio of sales from their business as dividend to the investors. Unlike bank loans, no obligation to repay principal and no monthly repayment.
- The formation rules as well as the rights and obligations of the parties of a Tokumei Kumiai (“silent partnership” in English) are provided in Commercial Code of Japan.
## Comparison with other financing schemes

<table>
<thead>
<tr>
<th></th>
<th>Securite</th>
<th>Loan</th>
<th>Stock issue (unlisted company)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financer</strong></td>
<td>Individuals (small amounts) and companies</td>
<td>Banks and other financial institutions</td>
<td>VC, Angel investors</td>
</tr>
<tr>
<td><strong>Method of financing</strong></td>
<td>Investment on business (based on TK agreement)</td>
<td>Loan</td>
<td>Share acquisition</td>
</tr>
<tr>
<td><strong>Obligation of principal repayment</strong></td>
<td>No obligation. Return based on the result of targeted business</td>
<td>Obligation to repay principal with interest</td>
<td>No obligation. Capital gain after IPO / M&amp;A</td>
</tr>
<tr>
<td><strong>Personal guarantee / lien</strong></td>
<td>None</td>
<td>Personal guarantee / lien required</td>
<td>None</td>
</tr>
<tr>
<td><strong>Voting rights</strong></td>
<td>None</td>
<td>None</td>
<td>Investors acquire voting rights</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>None</td>
<td>None</td>
<td>Investors acquire equity of the company</td>
</tr>
<tr>
<td><strong>Investment Period</strong></td>
<td>Period can be set flexibly in accordance with the business plan</td>
<td>Fixed period decided on company’s credibility</td>
<td>None</td>
</tr>
<tr>
<td><strong>How the amount is recorded on balance sheet</strong></td>
<td>Recorded as TK deposit on liability account (in some cases banks can regard as equity)</td>
<td>Recorded as loan payable on liability account</td>
<td>Recorded as capital fund/reserve on equity account</td>
</tr>
</tbody>
</table>

*Red : Disadvantages to MSMEs*
## Case Study: Great East Japan Earthquake Disaster Relief Funds

<table>
<thead>
<tr>
<th>Total offering amount</th>
<th>1.1 billion yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of business owners</td>
<td>38</td>
</tr>
<tr>
<td>Number of funds raised</td>
<td>40</td>
</tr>
<tr>
<td>Number of investors</td>
<td>29,282</td>
</tr>
</tbody>
</table>

### Specific Funds and Their Details

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Target</th>
<th>Amount</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>八木澤商店ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>那珂川橋ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>三重県三十五人ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>三重県二十日市ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>奈良県境町ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>東京都品川区ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>北海道札幌市ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>北海道帯広市ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>北海道釧路市ファンド</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Notes:*
- Each fund has a target amount.
- Participants include various regions and specific quantities.
- The diagram illustrates the diversity of products and funds related to disaster relief.

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Case Study: Yagisawa Shoten

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total offering amount</td>
<td>180 million yen</td>
</tr>
<tr>
<td>Number of investors</td>
<td>About 4,500</td>
</tr>
<tr>
<td>Number of funds raised</td>
<td>3</td>
</tr>
</tbody>
</table>

- Yagisawa Shoten is a soy sauce manufacturer with a history that dates back more than 200 years
- It was hit by the great East Japan earthquake and lost its factory
- We created two funds to rebuild the factory and funds became a driving force to rebuild the business
- The company is currently raising new funds to build a new factory and return to its original location prior to the earthquake
Social impact evaluation

<table>
<thead>
<tr>
<th>Input</th>
<th>Activity</th>
<th>Output</th>
<th>Outcome (Social impact)</th>
</tr>
</thead>
<tbody>
<tr>
<td>People Goods Capital</td>
<td>Business</td>
<td>Output of business</td>
<td>Outcome in the short term</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Outcome in the long term</td>
</tr>
</tbody>
</table>

**[Example] Maruyama Coffee Fund**

- **Input**
  - Investment by crowdfunding
  - Maruyama coffee and producers special small lot fund
  - Raised 51 million JPY
  - 753 investors

- **Activity**
  - Purchase coffee beans by advance payment
  - Purchase coffee beans in Latin America by advance payment.
  - Normal payment is made in 6 months later.
  - Sell coffee beans at retail store, EC, and wholesale store.
  - Feb 1st 2016 – Sep 30th 2017

- **Output**
  - Financial return to investors from sales of coffee beans
  - Coffee beans sales 86 million JPY (+35 million JPY comparing to investment amount)
  - Financial return to investors is 104.32%

- **Outcome (Social impact)**
  - Increase local employment
  - Not necessary to borrow from usurers
  - Local population and GDP increase ⇒ Tax revenue increase
  - Education improvement since children can go to school
  - Coffee beans farmers can keep running their business
  - Coffee beans quality improvement
  - The amount of money of interest to financial institutions that is reduced by advance payment is 7.5 million JPY (i-rate 30% for 6 months)
  - Local employment increase. Average monthly salary is 50,000 JPY (Costa Rica)
Case Study: Shinano Railway

Issues faced by Shinano Railway

• Aging train vehicles ⇒ Finance for renewal of the vehicles
• Decrease of population in the area and lack of workers
  ⇒ Need to increase “Related Population”
• Decrease in the number of tourists due to the coronavirus
  ⇒ Need to attract new passengers

“Blended Finance” for the renewal of train vehicles

For Individual Investors
Opportunity to enjoy Shinano Railway and investing

For Corporate Investors
ESG Investment Opportunity
Decrease of CO2 Emission
Case Study: Shinano Railway

To renew two train vehicles, approximately 340 million yen are necessary, 50 million yen of which were raised through Securite.

Individual Investors
- Total: 469 persons
- Outside Nagano: 84%

Corporate Investors
- 12 local companies

Social and Financial Returns

Tickets for “Rokumon”
- Original railway goods

Fund
- ¥30 million ⇒ Half rewards, half investment

Financial Return
- Part of ticket sales from non-commuters

Social Return
- Reduction of CO2
- Increase of non-commuters

Part of ticket sales from non-commuters
Case Study: Shinano Railway

Effect on the local community

Shinano Railway

Finance
Assets
People

→ Business Activity

Social Return
• Reduction of CO2
• Increase of non-commuters

Financial Return
Part of ticket sales from non-commuters

→ Solve local problems
⇒ Increase “Related Population”
⇒ Mitigate financial risk on local governments and residents

Change society for achievement of SDGs

Part of ticket sales from non-commuters
## Case Study: Microfinance

<table>
<thead>
<tr>
<th>Total offering amount</th>
<th>290 million yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of funds raised</td>
<td>8 funds</td>
</tr>
<tr>
<td></td>
<td>• 5 in Cambodia</td>
</tr>
<tr>
<td></td>
<td>• 2 in Viet Nam</td>
</tr>
<tr>
<td></td>
<td>• 1 in Myanmar</td>
</tr>
</tbody>
</table>

- Investors who support microfinance care about poverty alleviation in developing countries
- Investors invest in Microfinance Institutions (MFIs) which lend money to people in developing countries. They become able to have access to finance and develop their business
- In addition to financial returns, investors can participate in a field trip to meet MFIs and their clients
To Learn More:

ADB Institute Policy Brief

“Crowdfunding with Music Securities: A New Approach to Impact Investing” (2020)