

Does Geographical Proximity or Relational Proximity Matter in Small Business Lending? Evidence from the Borrower-Lender Distance in Japan, 2000-2010

Arito Ono¹, Yukiko Saito², Koji Sakai³, and Ichiro Uesugi⁴

Abstract

Using a unique and huge firm-bank matched dataset, this paper examines the evolution of geographical distance between a firm and its main bank in Japan during 2000-2010. We find, first, that the borrower-lender distance increased modestly in Japan between 2000 and 2010. Second, for firms that had relocated their headquarters, we find that more than 60 percent of these firms did not change their transacting bank branches. Moreover, lending distances of relocating firms increased significantly after the move. This suggests that it is relational proximity, rather than geographical proximity, that matters for small business lending in Japan. Finally, our multivariate regressions confirm that the relocation of firms as well as the change in the location of their main bank branches is positively associated with the lending distance after controlling for various borrower/lender characteristics.

JEL classifications: G21, R12

Keywords: lending distance, small business, geographical proximity, relational proximity

¹ Senior Economist, Mizuho Research Institute, 1-2-1 Uchisaiwaicho, Chiyoda-ku, Tokyo 100-0011, Japan. Tel: +81-3-3951-1306, Fax: +81-3-3591-1397, Email: arito.ono@mizuho-ri.co.jp

² Fellow, Research Institute of Economy, Trade and Industry (RIETI), Email: saito-yukiko@rieti.go.jp

³ Associate Professor, Kyoto Sangyo University, Email: ksakai@cc.kyoto-su.ac.jp

⁴ Associate Professor, Hitotsubashi University, Email: iuesugi@ier.hit-u.ac.jp