

## **II. Foundation of the Norinchukin Bank and its History in Japan**



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### I Enforcement of Industrial Cooperatives Law and Agricultural Finances

#### (1) Conditions of farm villages before foundation of industrial cooperatives

In 1873, a fixed monetary tax was introduced under which, payment in currency replaced the traditional payment "in kind". This accelerated a commodity economy in farming villages. On the other hand, the Meiji Government, in order to provide funds for industrial development, frequently issued inconvertible notes, which caused inflation. But in 1881, Finance Minister Masayoshi Matsukata started to control the issuance of paper currency which this time caused extreme deflation and pushed down prices. The deflation affected the prices of farm products so as to decrease them to half their original prices in three years. Farmers economy was hard hit.

In such a situation, in order to respond to the increasing demand for currency in the villages, especially to respond to the necessity of declining middle and small scale farmers, mainly land owners and merchants became loan sharks to lend money to them (at an annual rate of about 15 percent, at places more than 20 percent). Mutual financing associations, namely Tanomoshikou, Mujin and Houtokusha, were used to finance each other and to protect such farmers. But many farmers had their land taken compulsorily because they failed to pay land tax (chiso) or they lost their land because they could not get it back after it was used as collateral when they borrowed money.

In 1886, farm land cultivated by tenant farmers reached 40 percent of the total and land owners further increased their properties, while tenant farmers and farm workers increased in number, dismantling farmers.

#### (2) Enactment of Industrial Cooperatives Law and Increase of Industrial Cooperatives

As it was forced to cope with the serious devastation of farm villages, the Japanese Government decided to introduce industrial cooperatives, taking Raiffeisen's farm village cooperatives of Germany as a model. In 1900, the Industrial Association Law was enacted. Japan had mutual funding associations

such as Tanomoshikou and Mujin, or Houtokusha which was almost like a credit union in its nature, but they were far from enough to respond to the demand for capital from farm houses. Industrial cooperatives played a strong role as farm village cooperatives, so, many of them carried out projects not only financing but also purchasing, selling and services. (In the first stage, credit unions were not allowed to do other business, but in 1906, the law changed to allow them to do so.)

After the enactment of the Industrial Cooperative Law, the number of such cooperatives rapidly increased (Figure 1). There were several reasons. Partly, the Government actively encouraged their increase, for example, by holding classes, and through such cooperatives, reaching the villages with low interest funds. Funds were scarce in the farm villages and general banks did not lend money to most medium and small scale farmers. So the government continued to funnel funds to the villages through industrial cooperatives. In those cooperatives, the total amount of loans continued to be more than that of deposits until 1917.

## **II Foundation of the Central Bank for Industrial Cooperatives**

### **(1) Before the foundation of the Central Bank for Industrial Cooperatives**

As the number of small industrial cooperatives, in charge of a home city, town or village, increased in number and their activities grew, there occurred a move to set them up into federations or unions, in order to adjust funds between cooperatives or to enlarge the size of selling. In 1905, Dainihonsangyokumiai-chuoukai, the forerunner of Sangyokumiaichuoukai was established by the Government, and in 1909, the Industrial Cooperatives Law was amended to allow for founding of federations and unions.

Despite the move to set up federations and unions, the farmers had to wait until 1923 when the Central Bank for Industrial Cooperatives was founded, which corresponded to the national union of credit services. The delay was partly due to the fact that Nougoukinkou was first designated as the parent bank of the Central Bank for Industrial Cooperatives. At that time, two special banks were already in charge of financing the agricultural sector. Both Kangyoginkou on the national level, and Nougoukinkou on the prefecture level, were funding land owners and rich farmers. The loans from the government were handed through those special banks to the industrial cooperatives.

However, commerce and industry became brisk through the Sino-Japan War, the Russo-Japanese War and the First World War, land owners who were major customers for the special banks mentioned above left farming and went into the commerce and industrial sectors. Then these banks also shifted their major targets from the agricultural sector to the profitable commerce and industry sectors.

Adding to these external causes, among industrial cooperatives and Credit Federations, there was a call for establishing a central bank just for industrial cooperatives so that it could help adjust funds flow among them. This move became decisive by the reactionary panic after the First World War. Because of the crisis, both farm village economies and industrial cooperatives' management had hard times, and some of the cooperatives were even dissolved. But because of the reasons mentioned earlier, the special banks failed to fund those cooperatives adequately, and Credit Federations worked little to adjust credits. This helped strengthen more than ever the call to establish industrial cooperatives' own central bank. Also in the Government, the opinion became stronger that the special banks tended to pursue profits because they were stock companies, and that a central bank for the industrial cooperatives was necessary as a social political organ to help medium and small scale farmers facing hard times.

Thus in 1923, the Central Bank for Industrial Cooperatives, the forerunner of Norinchukin Bank was established. By that time, the base of the current three-tier structure, i.e. primary cooperatives, credit federations and the Norinchukin Bank was consolidated. The failure of the Kangyoginko and Noukouginkou in playing their role as the parent banks of industrial cooperatives helped the establishment of the Central Bank for Industrial Cooperatives. But the growth of industrial cooperatives and the heightened call for associated organizations gave birth to credit federations and their own central bank.

(2) Start as a semi-governmental bank

But the Central Bank for Industrial Cooperatives was under the strong influence of the government. In other words, 15 million yen of total 30 million yen capital were invested by industrial cooperatives and federations, but the rest was from the government. The percentage of governmental investment in the total capital and the amount of such investment topped other special banks. Furthermore, there were a variety of preferential policies towards the bank, for

example, dividends were exempted on the share of the capital from the government.

On the other hand, executives including president, managing directors, auditors and councillors, were all appointed by the government. Deciding interests on loans, altering articles of incorporation and others all needed permission from competent ministers (Agriculture and Commerce Minister and Finance Minister). The bank and its entire business was under strong governmental supervision and control. Thus, from the beginning, there was a call inside the bank for deregulation and establishing independence.

### (3) Participation of Fisheries and Forestry Cooperatives

In the first stage, Fisheries Cooperatives and Forestry Cooperatives were not allowed to participate in the Central Bank for Industrial Cooperatives. The reason was that these cooperatives were virtually governmental agents and that their participation would not be suitable for the purpose of the Central Bank for Industrial Cooperatives aiming at helping farmers under the middle class. But these cooperatives gradually improved their systems as cooperatives, and the Central Bank for Industrial Cooperatives itself wanted to find places to make best use of floating funds. Thus, one after the other, the cooperatives joined the Bank. In 1943, "the Central Bank for Industrial Cooperatives Law" was altered to "the Norinchukin Bank Law", and the central bank changed its name Norinchukin Bank.

## III Dependence on Governmental Funds and the Move towards Independence

### (1) Strong financial dependence on the Government

Starting as a semi-governmental organ, Norinchukin was not only under managerial control of the government, but was also heavily dependent on the government financially. When farm village economies became worse, so did the management of the industrial cooperatives. Then the Central Bank for Industrial Cooperatives (Norinchukin Bank) had a larger role to funnel governmental money to the villages. After the world economic crisis in 1930, in particular, the

share of Government's fund from the Deposit Bureau in the total loan of the Bank increased rapidly. In 1934, the share even reached as high as 85.1%. (Figure 2)

During the Second World War, the management of Norinchukin Bank became stable under wartime control, but during the deflation period after the war farm products prices declined. Management of agricultural cooperatives became worse, and in 1950, cooperatives in the red reached 43% of the total. This put pressure on the funding of Norinchukin Bank, and in September, 1949, borrowing (mainly from the Bank of Japan) reached 32% of its total capital.

## (2) Move towards Independence

To cope with the situation, the Government vigorously supported and guided the agricultural cooperatives to help them rebuild. The Norinchukin Bank was also surveyed by the Finance Ministry, and the ministry criticized the bank's business for problems including too much fixed lending. The bank also started to rebuild its management as the highest guiding organ of cooperative credit.

Among the policies for rebuilding its management, Norinchukin Bank was to amend its character from being too dependent on the government's funds and to become independent financially. As part of realizing the policy, it thought of issuing its first debenture to ensure long term capital. Behind this move, there were several factors. Deposits from credit federations were with heavily seasonal changes, because they were large during crop season mainly thanks to the sales of rice, but during non-crop seasons, they reduced. Soon after the war, the government's Deposit Bureau became unable to go to the private sectors and the Bank became unable to rely on the government for resources of long term funds. The money was in demand in the villages. For land improvement and construction of fishing boats, long term loans for agricultural and fishery sectors were further needed. Kangyoginkou and Noukouginkou had already withdrawn from financing the agricultural sector, so the Norinchukin Bank was already in the center of agricultural financing.

It was necessary for the Bank to increase share capital in order to increase debenture. But at that time in 1949, the total of share capital from member organizations was only 0.4 billion yen. So the Bank collected another 0.4 billion yen from those organs, and it also obtained preference stocks amounting to 2 billion yen from the government. Thus, the total capital amounted to 2.8 billion

yen by 1950, which enabled the Bank to issue large scale debentures, and actually the amount of issued debentures increased rapidly(Figure 3).

In parallel with the increase of debenture, was the increase in the amount of deposits. As the background to this increase in deposits, there was brisk economy stimulated by the Korean War, the rise in the government purchase prices of rice, the growth of farm production and realization of a good crop of rice every year. Furthermore, thanks to the selling of rice by subscription to the government starting in 1955, the Bank became able to receive advance payment for rice at the time of non-crop season. The lowering of the money market rate also helped gathering of the deposit of credit federations with the Norinchukin Bank. Because of the increase of owned capital, the Bank was able to reduce borrowings from the Bank of Japan to zero by the end of 1955, and in 1959, it returned preference stocks from the government, and nullified borrowing from the government.

#### **IV Establishment of Democratic System in the Norinchukin Bank**

##### **(1) Way to the establishment of democratic system**

As we mentioned before, since the time of the Central bank for Industrial Cooperatives, there was a strong call for deregulation of severe government control and establishing self reliance of the organization. In 1948 after the war, Norinchukin Bank's former capital including funds from the government was all cut out, and the Bank restarted based on funds purely from the private sector. On this occasion, some member organizations such as credit federations called for an open election of executive members of the board.

In 1949, the presidents of the credit federations resolved the democratization of board members' elections, alteration of selecting system of the delegates of member organizations and setting up of a "management committee" as a consultative body for the president.

But the government did not accept them, and the Bank decided to take a transit measure within the limit of the then Norinchukin Bank Law until the law would be amended. The measure was to increase the number of part-time executives, and the increased number will be open to representatives from member organizations. By 1950, 12 part-time directors and 1 part-time auditor



were appointed, and this paved the way for member organizations to take part in the management of the Bank.

In addition, farm business improved because of the stimulation by the Korean War and stabilization of management of cooperative credit, which strengthened credit federations' influence. Thus a call for revising the Norinchukin Bank Law was strengthened.

In 1957, The Central Union of Agricultural Cooperatives began studying the revision of the Norinchukin Bank Law, while in 1959, a fact-finding mission appointed by the Ministry of Agriculture and Forestry visited agricultural cooperatives and their central banks in 7 major Western countries. Through this mission, it became clear that, in those countries, executives of central financial organs for agricultural cooperatives are selected directly or indirectly from among their shareholders. This hastened the government to start studying revising the law. As we mentioned earlier, by 1959, Norinchukin redeemed the government's preference stocks and there were no equity stakes from the government. This fact should not be neglected.

## (2) Democratized system

The Norinchukin Bank Law was revised in 1961, under which governmental appointments of executives as well as the system of councillors and comptrollers were both abolished. Instead, president and auditors came to be selected from candidates approved by an "administrative committee". The president then would appoint vice president and directors. Additionally, the system of a deliberation council was established with those members being appointed by the president. Thus, in its structure, the Norinchukin Bank changed from a semi-governmental organ to a democratic one managed by selected members from its member organizations.

## **V Foundation of Agriculture, Forestry and Fisheries Finance Corporation and its Relations with the Norinchukin Bank**

At present, most credits for agriculture, forestry and fisheries are carried out by cooperatives including agricultural cooperatives and by the Agriculture, Forestry and Fisheries Finance Corporation (Norinkouko). (Table 1) Norinkouko was established in 1953 aiming at lending long-term low-interest

loans to agriculture, forestry and fisheries sectors. Such long-term low-interest loans were necessary for the land consolidation in order to increase food production, but those loans were more than the cooperatives' credit system. The Norinkouko is governmental with its capital all from the government and with its executives appointed from the competent ministers (Ministers of Agriculture, Forestry and Fisheries, as well as Finance).

Thus, Norinchukin and Norinkouko have different roles, and in the first setting, Norinkouko was for some time not going to have its branches, and to commission Norinchukin to do related businesses other than deciding loans. But in 1958, it was allowed to have local offices and to give loans directly. Since then it has expanded its business from not only a variety of loans to the primary industries but to food processing and other ones. Now there are some areas where it competes with the agricultural cooperatives credit system.

## **VI The Present State of the Norinchukin Bank**

Reflecting the rapid post-war economic growth, many of farmers' family members got further involved in other business and consequently farm houses' income enlarged. This helped steadily increase the amount of deposits in agricultural cooperatives. Most of the floating money which primary cooperatives or credit federations could not absorb concentrated on the Norinchukin Bank. The Bank not only invested the deposits in member organizations, workers in agriculture, forestry and fisheries, and in industries related to those primary sectors, but also it used the floating for buying securities and it returned the profits to credit federations and primary cooperatives.

At the end of fiscal 1992, its total assets amounted to 43.2 trillion yen, and its domestic total assets came top of the finance institutions in the private sector. Not only is the Bank abundant with fund, but also it is given highest ratings among Japanese banks by Standard & Poor's Corp. and Moody's Investors Service Inc. Both are well known rating companies.

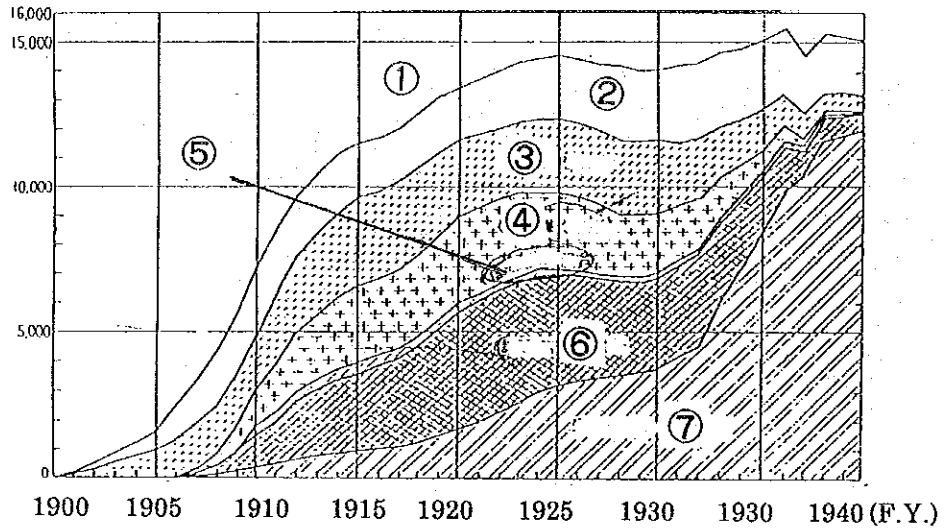
At present, total lending amounts to 13.5 trillion yen among the 43.2 trillion yen assets. In the lending, 2.2 trillion yen go to member organizations, while 8.1 trillion yen go to related industries. Among related industries, farming materials, farm production and processing, and farm products distribution are

receiving large investment. Outstanding amount of securities is 14.5 trillion yen surpassing the total lending, and government bonds top those securities. (See Table 2, the balance sheet of the Bank)

In other business projects, the Bank is active in dealing in public bonds, and in international financial business projects through its branches in New York, London and Singapore. In 1993, coping with the financial system's reform at home reflecting financial liberalization, the Bank has also established a securities firm as its subsidiary, in order to expand business.

Figure 1 Development of Industrial Cooperative organizations;

(Number of  
coops)



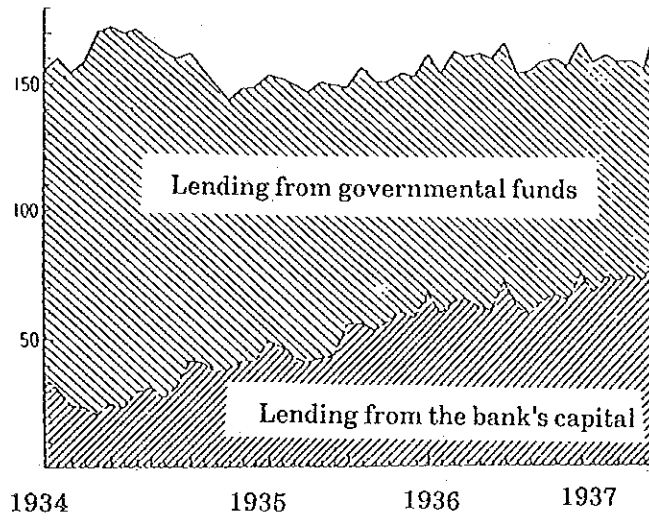
- Note:
- ① Total number of cooperatives
  - ② Other cooperatives
  - ③ Credit-only Cooperatives
  - ④ Credit and supply cooperatives
  - ⑤ Credit and marketing cooperatives
  - ⑥ Credit, supply and marketing cooperatives
  - ⑦ Credit, marketing, supply and utilizing cooperatives

Quote: Industrial Cooperatives' Handbook

Quote: History of the Norinchukin Bank I, p68

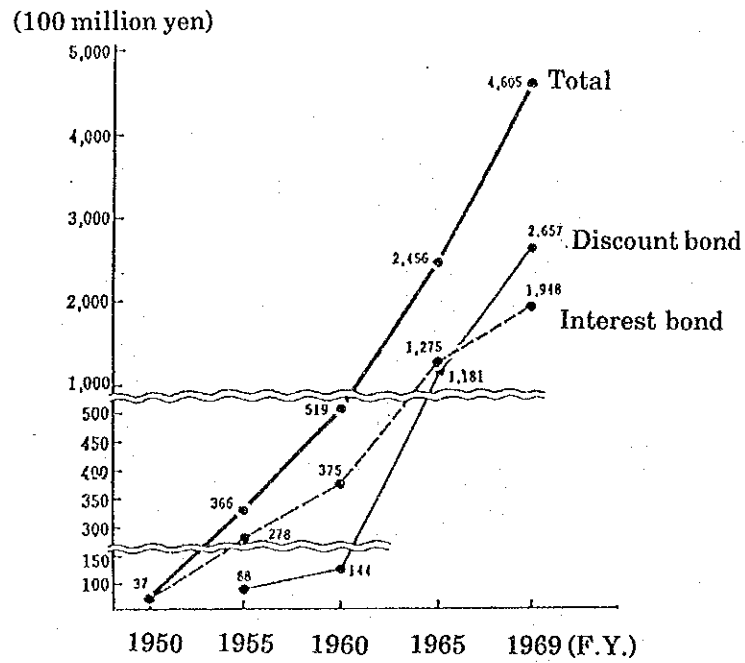
Figure 2 The Ratio of Governmental Funds to Funds from Bank's Capital in the Norinchukin Bank's Lending;

(one million yen)



Quote: History of the Norinchukin Bank II, p107

Figure 3 Increase in Balance of Issued Agricultural and Forestry Debentures;



Quote: Industrial Frontiers, "Norinchukin Bank", p104,

Table 1 Amount of Lending by Financial Institutions for  
Agriculture, Forestry and Fisheries;

This table is based on "Statistics and Comments on Banking for Agriculture, Forestry and Fisheries", compiled by Norinchukin Bank Institute. For the calculation of lending by financial institutions in private sector, overdraft is omitted. For the lending by cooperative financial institutions, loans from government financial corporations are omitted. Duplication is carefully avoided regarding cooperative financial institutions;

As of the end of March, 1991; Unit: Hundred Million Yen;

Financial institutions	Total lending balance (A)	Lending balance for agriculture, forestry and fisheries				Ratio (B)/(A) (%)
		Total (B)	Agriculture	Forestry	Fisheries	
Total	5,459,426	245,638	204,588	13,315	27,735	4.5
Subtotal of lending by private sector financial institutions	4,804,041	25,748	14,471	2,462	8,815	0.5
Banks	3,790,953	19,857	10,823	1,938	7,096	0.5
Major city banks	1,754,105	6,163	4,787	461	915	0.4
Local banks	986,369	9,778	4,338	1,165	4,275	1.0
Secondary local banks	428,399	2,912	1,475	241	1,196	0.7
Credit banks	568,500	5,504	3,527	477	1,500	1.0
Others 1)	444,588	387	121	47	219	0.1
Subtotal of lending by cooperative financial institutions	357,558	166,945	151,654	1,524	13,767	46.7
Norinchukin bank	129,833	23,562	18,326	1,524	3,712	18.1
Prefectural Credit Federations of Agricultural Cooperatives (Shinnouren)	88,150	17,845	17,845	-	-	20.2
Prefectural Credit Federations of Fisheries Cooperatives (Shingyoren)	7,740	7,740	-	-	7,740	100.0
Agricultural Cooperatives	129,520	115,483	115,483	-	-	89.2
Fisheries Cooperatives <sup>2)</sup>	2,315	2,315	-	-	2,315	100.0
Subtotal of lending by governmental financial institutions	297,827	52,945	38,463	9,329	5,153	17.8
Norinkouko	52,913	52,422	38,135	9,319	4,968	99.1
Okinawa Development Finance Corporation	10,149	387	328	10	49	3.8
Others 3)	234,765	136	-	-	136	0.1

Notes: 1) Trust Accounts by Shoukouchukin and Nationwide Banks. 2) This includes Suikakoukyou 3) This includes Japan Development Bank, Export-Import Bank of Japan & Small Business Finance Corporation.

Quote: Pocketbook of Statistics of Agriculture, Forestry and Fisheries--1993 Edition, p74

Table 2 Balance Sheets of the Norinchukin Bank  
(As of March 31st, 1993)

(Unit: Million yen)

Items	Amount	Items	Amount
(Assets)		(Liabilities)	
Loans and Bills Discounted	13,546,902	Deposits	29,035,137
Foreign Exchange	37,660	Negotiable Certificates of Deposits	401,973
Securities	14,506,683	Debentures	9,095,674
Money Held in Trust	994,041	Borrowed Money	229,667
Trading Account Securities	144,878	Bills Sold	112,200
Monetary Claims Bought	24,413	Call Money	881,928
Bills Bought	80,200	Foreign Exchange	214
Call Loans	4,266,757	Advances Received for Foods Account	3,977
Payments by Rough Estimate for Foods Account	7	Entrusted Funds	1,432,259
Payments for Foods Account	136	Other Liabilities	1,226,026
Cash and Due from Banks	8,470,318	Reserve for Possible Loan Losses and Other Reserves	139,964
Other Assets	686,080	Acceptances and Guarantees	370,632
Premises and Equipment	88,643	Total Liabilities;	42,929,659
Deferred Debenture Discounts	33,389	(Capital Funds)	
Customers' Liabilities for Acceptances and Guarantees	370,632	Paid-in Capital	100,000
		Legal Reserve	62,286
		Other Surplus	158,800
		Total Capital Funds	321,086
Total Assets	43,250,745	Total Liabilities and Capital Funds	43,250,745

Quote: The Norinchukin Bank



### **III. Depositor Protection System in the Agricultural and Fishery Cooperative Sector in Japan**



### **III. Depositor Protection System in the Agricultural and Fishery Cooperative Sector in Japan**

#### **1. Development of the System**

The Agricultural and Fishery Cooperative Savings Insurance Corporation (AFCSIC) was established on Sep. 1, 1973 to implement the depositor protection system in the agricultural and fishery cooperative sector under the provisions of a special law. The system was aimed at enabling the sector to cope with the new situation which was introduced by an alteration of the financial policy to promote competition among financial organizations. The deposit insurance system for private banks and other financial organizations had been put in operation two years before.

The objective of the two systems was to protect depositors by paying insurance money directly to the depositors in case of the suspension of payment of financial organizations and thereby to avoid damages to public confidence in the credit system of respective sectors.

The deregulation of financial policy was accelerated since then and the competition of financial organizations including the cooperative sector became more and more severe. As a result, the expansion of the role of the deposit insurance systems became needed to adapt the systems to changes in conditions and to make it operate more effectively in response to emergencies. The deposit insurance laws for both the two sectors were revised in 1986.

In this revision, a new objective was added to the systems to provide financial support to financial organizations which have financial difficulties so as to avoid the suspension of payment. Measures to expand and reinforce the systems were also taken, such as the widening of insurance coverage and the introduction of the temporary payment of insurance money.

In the history of the AFCSIC system of nearly 20 years, there has been no case of paying insurance money, but one case of giving financial support to an agricultural cooperative.

In addition to the above-mentioned legal system, there exist mutual assistance systems of cooperatives on the national and prefectural basis. They

have been providing financial supports mainly through low interest credits. In case of financial support by AFCSIC, it generally operates in concert with the mutual systems.

## 2. Outline of the System

- (1) Insurance Relationship: Insurance relationships are established mandatory and automatically between AFCSIC and cooperatives (actually engaged in savings service) and their depositors.

Eligible cooperatives are:

- agriculture cooperatives
- fishery cooperatives
- marine products processing cooperatives

- (2) Premium: Cooperatives are obligated to pay to AFCSIC by the end of June every year an amount calculated by multiplying the savings balance at the end of March in the current year by the premium rate (12/100,000). Savings, such as negotiable certificate of savings, savings by the government or other financial organizations, are deducted from the savings balance.

- (3) Banking Risks Covered by Insurance:

- a. the first banking risk: suspension of payment of savings by cooperative
- b. the second banking risk: approval of cooperative's dissolutions, adjudication of bankruptcy, order of dissolution, and losing the legal number of cooperative members

- (4) Insurance Money: Should a banking risk happen, AFCSIC will pay insurance money to the depositors concerned in accordance with the rule below. In case of the first banking risk, however, whether the insurance money is paid will be decided by the Management Committee within one month after the occurrence of the banking risk. The period may be extended one month further with the approval of the competent Ministers.

- a. amount of insurance money: Total amount of savings principal owned by each individual depositor in the cooperative. The amounts such as the

amount of any debts a depositor owes the cooperative are deducted from this total.

b. max. amount of insurance money: 10 million yen per depositor

(5) Temporary Payment Money: Should a banking risk happen, AFCSIC, through a decision to be made within one week by the Management Committee, may make temporary payments in conformity with the following conditions.

a. savings for which temporary payments are made: ordinary savings

b. temporary payment limit: 200,000 yen

(6) Financial Support: AFCSIC may offer financial support to cooperatives as well as federations and the Norinchukin Bank (referred to as "federation") which are willing to aid or support cooperatives in operational difficulties (cooperatives which are under difficulty caused mainly by credit services, and may possibly suspend savings refunds or have made suspensions savings refunds).

a. methods of financial support:

(a) To a cooperative which is trying to aid another cooperative in operational difficulties by merger, AFCSIC can donate money (interest subsidy, etc.), extend loan or deposit funds, purchase property, and guarantee or accept obligations.

(b) To federation which supports the in (a) mentioned cooperative or a cooperative in operational difficulties which plans to carry out credit services rehabilitation measures, based on the mutual support system, AFCSIC can donate money (interest subsidy, etc.), extend loan or deposit funds, and guarantee obligations.

b. acknowledgment of adequateness: When the aiding cooperative or the federation needs to receive financial support, it must obtain in advance an acknowledgment of adequateness by the Prefectural Governor or the competent Ministers.

c. conditions for an acknowledgment of adequateness:

- (a) The merger (including credit services rehabilitation measures) will contribute to the protection of the depositors.
  - (b) The financial support of AFCSIC is indispensable for the merger.
  - (c) Where the total business of the cooperative in operational difficulties will be discontinued or the cooperative will be dissolved, a smooth supply and demand of fund or convenience to users in the area or sector where the cooperative is providing credit services may be disturbed to a large degree.
  - (d) Financial support by AFCSIC is recognized to be made best use of to reestablish sound and adequate credit services by the cooperative in operational difficulties.
- d. decision of financial support: When there is a request for financial support, AFCSIC shall without delay obtain the Management Committee's decision, and determine whether financial support should be extended. For this determination, it is necessary to obtain the competent Ministers' approval.
- (7) Claimable Assets Acquisition: At payment of insurance money or temporary payment money, AFCSIC acquires the claimable assets correspondent to the amount paid, relative to the savings which the depositor has in the cooperative.

### 3. Profile of AFCSIC

- (1) Established: September 1, 1973
- (2) Legal Status: special juridical person established under the Agricultural and Fishery Cooperative Savings Insurance Law
- (3) Capital: 300 million yen

Subscribers: Government	75 million yen
Bank of Japan	75 million yen
The Norinchukin Bank	75 million yen
prefectural credit federations	

of agricultural and fishery  
cooperatives

75 million yen

(4) Savings Insurance Fund

81,820 million yen  
as of Mar. 31, 1993

(5) Organization

- 1) Officials:
  - chief director, 1 person; designated by the competent Ministers
  - director, 1 person; designated by the chief director subject to approval by the competent Ministers
  - auditor, 1 person; designated by the competent Ministers
- 2) Management Committee:
  - a. Members: chief director, director, 7 members designated by the chief director under the approval by the competent Ministers. They are drawn from those having specialized knowledge and experience in agriculture or fishery and finance.
  - b. matters for decision:
    - (a) modification of the articles of incorporation
    - (b) preparation and modification of the statement of business methods
    - (c) budget and financial plan, and accounts settlement
    - (d) decision and modification of insurance premiums
    - (e) decision on insurance money payments for the first banking risk
    - (f) decision on temporary payments
    - (g) decision on financial support

3) Secretariat: one Secretary-general, two Secretaries, one Deputy Secretary, one Examiner, and three staff members

(6) Services by AFCSIC: Services by AFCSIC are receiving insurance premiums, paying insurance money and temporary payment money, financial support, and related services. For smooth execution of these services by the Corporation with a limited number of personnel, a part of these services are entrusted to prefectural credit federations of agricultural cooperatives, to prefectural credit defecations of fishery cooperatives, or to The Norinchukin Bank.

(7) Competent Authorities:

Ministry of Agriculture, Forestry and Fisheries (Agricultural Cooperative Division, Economic Affairs Bureau)

Ministry of Finance (Special Banks Division, Banking Bureau)

(8) Services Achievements:

1) Insurance money: No actual payments have been made.

2) Financial support: one case (in 1987)

To the Kagoshima Prefecture Credit Federation of Agricultural Cooperatives, a donation of 350 million yen will be made every year for about 10 years.



The number of Insured Cooperatives, Amounts of Savings and Insurance Premiums

Year (march 31)	Number of Insured Cooperatives (June 30)		Amounts of Savings (¥ billion) (Incl. Savings From Government, etc.)		Insurance Premiums (¥ million)				
	Agricultural	Fishery*	Total	Agricultural	Fishery*	Total			
1992	3,389	1,733	5,122	60,664	2,195	62,859	7,034	252	7,287
1991	3,597	1,746	5,343	56,160	2,111	58,272	6,516	244	6,760
1990	3,742	1,755	5,497	51,261	2,009	53,270	5,957	233	6,190
1989	3,881	1,762	5,643	46,550	1,888	48,437	5,421	219	5,640
1988	4,113	1,776	5,889	43,240	1,802	45,042	4,948	205	5,153
1987	4,243	1,783	6,026	40,777	1,702	42,479	4,270	178	4,448
1986	4,321	1,790	6,111	38,780	1,654	40,435	3,282	140	3,422
1985	4,369	1,787	6,156	36,225	1,600	37,824	2,125	94	2,219
1984	4,385	1,790	6,175	33,760	1,523	35,283	1,980	89	2,069
1983	4,424	1,792	6,216	31,710	1,481	33,190	1,860	87	1,946
1982	4,480	1,793	6,273	29,524	1,379	30,903	1,733	81	1,814
1981	4,578	1,797	6,375	26,870	1,281	28,151	1,578	75	1,653
1980	4,605	1,795	6,400	24,456	1,218	25,673	1,437	72	1,508
1979	4,633	1,808	6,441	21,933	1,122	23,055	1,290	66	1,357
1978	4,653	1,799	6,452	19,437	1,002	20,439	1,144	59	1,203
1977	4,800	1,789	6,588	17,320	832	18,153	1,021	49	1,070
1976	4,846	1,800	6,646	15,248	705	15,953	899	42	941
1975	4,904	1,808	6,712	13,013	587	13,600	769	35	803
1974	5,202	1,833	7,035	11,319	520	11,839	666	31	697
1973	5,428	1,832	7,260	9,327	402	9,728	183	8	191

\* Includes marine products processing cooperatives



#### **IV. Policy regarding Promotion of the Merger of Agricultural Cooperatives in Japan**



#### **IV. Policy regarding Promotion of the Merger of Agricultural Cooperatives in Japan**

##### **1. Establishment and Restructuring of Agricultural Cooperatives**

###### **(1) Establishment**

After the enactment of the Agricultural Cooperative Law of December 15, 1947 (hereafter cited as the "Agri-Coop Law"), agricultural cooperatives were established rapidly, with the assets inherited from the Agricultural Association as their operation bases. Near the end of 1948, the establishment of the cooperatives was nearly complete. Table-1 illustrates the progress.

###### **(2) Restructuring**

###### **1) Financial Difficulties of Cooperatives**

The newly started cooperatives started having financial difficulties from about as early as 1949. Of the multi-purpose cooperatives, 24% had deficit in 1949 and 29% in 1950. As of May 1950, the number of cooperatives that had bank withdrawal privileges stopped reached 255, and those that had restrictions reached 799.

In accordance with the Directive of 9 Principles for Economic Stabilization issued on the basis of the Dodge Plan of December 1948, tax collection was intensified. The economic conditions of farmers deteriorated to a large extent, due to an influx of unemployed workers to the farm villages, a reduction of subsidies and a drop in the prices of agricultural products. Furthermore, the agricultural cooperatives were unable to respond adequately to severe changes in the circumstances that engulfed them, such as the abolition of controls on agricultural products beginning with staples, rice and wheat, miscellaneous cereals and potatoes. The levels of production and sales decreased and transactions worsened. In addition, the fixed assets inherited from the Agricultural Association and their own insufficient capital accelerated the deterioration of the cooperatives' finances.

## 2) Restructuring

In May 1950, the government revised the Agri-Coop Law requiring periodical audits by the government. In November, it enacted the Ordinance for the Standardization of Bookkeeping, stipulating the standards which cooperatives had to observe in the operation and management of their assets.

However, the restructuring of the cooperatives' finances did not progress as rapidly as expected. In April 1951, the Law for Restructuring Agricultural and Fishery Cooperatives (subsequently in June 1951, forestry cooperatives also became subject to the law and it became the Law for Restructuring Agricultural, Forestry and Fishery Cooperatives) was enacted, and the government decided to assist in the rebuilding of the cooperatives. This law, for cooperatives in financial difficulties, provided that the government would pay subsidies for interest on fixed credits and incentives for capital increases. The number of cooperatives eligible for assistance under this law was 2,480, which was 19% of the total.

Furthermore, the restructuring of the federations of agricultural cooperatives did not proceed smoothly due especially to the heavy burden of the interest on loans stemming from the fixed assets. The Law for the Promotion of the Restructuring of Agricultural, Forestry and Fishery Federations was enacted in August 1953.

In March 1956, even though the five year period stipulated by Law for Restructuring of 1951 had expired, a certain number of cooperatives with financial difficulties remained. Thus the Law of Special Measures for Restructuring Agricultural Cooperatives was enacted. The law aimed to restructure by means of such state aid as interest subsidies. From April 1956 to 1960, the number of cooperatives that merged under this law reached 326 cases 842 cooperatives.

## 2. Promotion of the Merger of Cooperatives

### (1) Enactment and Extension of the Law for Aid of the Merger of Agricultural Cooperatives (hereafter cited as the "Merger Aid Law")

From about 1953, the merger was mainly a measure to assist financially troubled cooperatives. At the end of March 1955, of the roughly 13,000 multi-

purpose cooperatives, approximately one fourth were designated financially troubled.

In 1960 when the Merger Aid Law was enacted, of 12,050 multi-purpose cooperatives (by the end of the fiscal year), 95.3% of the cooperatives had memberships of less than 1,000 households. In other words, many of the cooperatives facing financial difficulties were small-scale. In order to improve the financial conditions of weak cooperatives, it was important to proceed with the merger and expand their size in addition to giving aid to primary cooperatives that sought to build stronger foundations. Under the circumstances, the Merger Aid Law was enacted to facilitate the merger of cooperatives. It took effect on April 1, 1961.

The Merger Aid Law was not only a measure to save cooperatives in financial difficulties. It was justifiable on the basis of its positive objective, the restructuring and reinforcing cooperatives so that they might cope with high rates of economic growth.

Originally, this law stipulated that the merger scheme and management plan had to be submitted before 1965. As a consequence of the mergers promoted by the law, the number of cooperatives decreased from 12,050 in 1960 down to 7,320 by the end 1965. Accordingly, it was the government's view that the goal of the law was attained within the stipulated five years and therefore, it had no intention of extending the deadline.

In order to cope with further changes in the circumstances surrounding agricultural industry and cooperatives, however, "subsidiary cooperatives" requested an extension. Besides, supporters of extension generally saw it as necessary for establishing a sound financial foundation and increasing size which allow the cooperatives carry out their functions. On the initiative of members of the Diet extensions were legislated seven consecutive times, in 1966, 1970, 1972, 1975, 1980, 1986 and 1989.

In accompaniment to the law, the Ministry of Agriculture, Forestry and Fisheries issued the following practical guidelines: a) The number of regular members in a merged cooperative should exceed 1,000 households. b) The territory of a merged cooperative should be larger than the area of an "administrative division of city, town and village". (hereafter cited collectively as the "municipality")

Mergers of cooperatives were carried out with the government's assistance, such as the Merger Aid Law and accompanying guidelines. The number of multi-purpose cooperatives decreased from 12,050 in 1960 down to 3,574 by the end of 1990. Furthermore, the percentage of multi-purpose cooperatives with memberships exceeding 1,000 households increased from 4.7% in 1960 to 45.3% by the end of 1990. Those with memberships exceeding 3,000 households reached 10.2%.

The number of those with territory equal to or larger than a municipality increased to 69.3% by the end of 1990. This was up from 16.0% at the end of 1960.

Of these, the number of so-called "multi-regional mergers", those with territory larger than a municipality increased from 1.1% in 1960 to 14.2% by the end of 1990. (Table-2, -3 and -4 illustrate this increase).

## (2) Revision of the Merger Aid Law

In view of recent changes in the circumstances surrounding agricultural industry and farm villages, the stabilization and reinforcement of the cooperatives' operational foundations were urgently needed. This was needed in order to meet the diversified needs of the membership and play a positive role in promoting agriculture and farms. In addition, there still remained throughout the country a considerable number of vulnerable small-scale cooperatives. This was evident from the fact that approximately 30% of the cooperatives did not achieve the size of a municipality. Under the circumstances, the government again proposed a revision of the Merger Law in March 1992 in order to promote through mergers the sound development of the farmers' organization of cooperatives. The proposal included requirements such as: the extension of closing date for the submission of merger schemes and management plans (to March 31, 1995), additional designation of "special cooperatives" as its legislative subject, schedule of fixed credits, setting up reserves for accelerated depreciation, and so forth. The Merger Aid Law (revised) was promulgated and took effect on May 22, 1992.

## (3) Summary of the Merger Aid Law

### 1) Objective

The Merger Aid Law stipulates its objective as follows:



In order to contribute to the sound development of the cooperative organization of farmers through nurturing extensively the cooperatives capable of proper and effective business operations, the Merger Aid Law aims to promote the merger of cooperatives, with its provisions for aid necessary to assist the merger of cooperatives and establish a sound business foundation for those that get involved in a merger. (See Diagram-1).

## 2) Summary

The law shall be applied to:

- a) the merger exclusively among agricultural cooperatives in credit business operations,
- b) the merger which includes two or more agricultural cooperatives in credit business, and
- c) the merger of special agricultural cooperatives ("investment cooperatives") (specifically those whose sales of cattles, hogs, horses, beef, pork, horsemeat and their processed products exceed one half of their total turnover).

Further, the cooperatives concerned are requested to make out the merger scheme and subsequent management plan, and submit them before March 31, 1995 to the governor of "the administrative division of the prefecture" for authorization. This is to include Tokyo, Hokkaido, Osaka, and Kyoto (hereafter referred to collectively as the "prefectures").

The merger scheme and management plan shall include such items as:

- a) basic policy regarding the merger scheme and subsequent management,
- b) basic particulars of the merger contract,
- c) particulars concerning the integration and preparation of the facilities for proper and efficient operations after merging,
- d) measures to be taken for intensive utilization and close cooperation by and among the merged cooperative and the members,

- e) management plan covering three business years subsequent to the merger, and
- f) measures to be taken for repayment of fixed credits.

Regarding the above stipulations, at a general meeting with more than half of the regular members present, a measure must receive a two-thirds vote to pass. Once undergoing this procedure, the governors will seek advice from the prefectural union of agricultural cooperatives and then authorize the merger scheme and management plan submitted to them.

The merged cooperatives which receive such authorization are entitled to subsidies provided in the budget. In addition, they receive special tax treatment. The budget subsidies, however, have been suspended since 1980. Currently, only the special tax treatment is provided.

### 3) Special Tax Treatment

- a) exemption from obligatory withholding taxes on payments of regarded dividends,
- b) favorable taxation on revenue from liquidation,
- c) inclusion of deficits inherited from the pre-merger cooperative into accumulated loss,
- d) favorable application of special deduction from reserved earnings,
- e) exemption from heavy additional taxes on land transferred,
- f) favorable application of basic deduction from assessment value of land, and
- g) exemption from taxes on registration and certification of real estates.

### (4) Establishment of Fund for the Merger

Under the provisions of the Merger Aid Law (revised), a "corporate body" engaged in the promotion and subsidization of merger operations and the cooperatives merged thereby (hereafter cited as the "promotion corporation") and

another "corporate body" engaged in giving assistance and counsel to the promotion corporation (hereafter cited as the "assistance corporation") are established in each prefecture, and both of them shall take measures to repay as easily as possible fixed credits until they are completely liquidated.

In addition, regarding the cost of contributions by subsidiary agricultural cooperatives to the promotion and assistance corporations, they will be allowed tax breaks (that allow them to include their contributions as financial loss).

This is in view of the reality that the fixed credits inherited from pre-merger cooperatives is the most prohibitive cause impeding the realization of the mergers. It causes difficulties regarding financial arrangements at the time of the merger as well as during subsequent management.

Measures taken are as follows:

- a) The promotion corporation shall subsidize the interest on loans to the cooperatives merged according to the provisions of the law, and thereby facilitate the liquidation and repayment of its fixed credits.
- b) Experts guide the merged cooperatives regarding management and financial control.
- c) The merged cooperatives obtain loans from the banking institutions to cover the fixed credits. They receive above-mentioned guidances from the promotion corporation.
- d) The merged cooperatives liquidate and repay their fixed credits with revenues from the use of loan funds as well as from other sources.

Table-5 and 6 illustrate the summary of the promotion and assistance corporations and their main business, the subsidization of interest on loans.

#### (5) Special Project for the Promotion of the merger of Agricultural Cooperatives

From 1992, the Ministry of Agriculture, Forestry and Fisheries has put into practice special projects to promote the merger of agricultural cooperatives. The Ministry considers it necessary to reinforce operational foundations of the

cooperatives by means of additional mergers. This would allow them to cope with severe conditions and carry out their functions.

1) Details of Projects

a) Projects conducted by prefectures

- Project to reinforce operational foundations

To decide on a policy for the operational guidance to be given merged cooperatives; to conduct financial surveys of those in the process of merging and counsel regarding re-arranging and re-structuring the circumstances of the mergers; particularly in order to bring about the merging of those who are in the impending financial difficulties.

- Project to promote multi-regional mergers

To study measures for the promotion of close cooperation between the merged multi-regional cooperative and the agricultural administration office of the municipality, to counsel on the promotion plan of multi-regional farms, and to give guidance regarding the setting up of a liaison and consultation committee for the multi-regional cooperative and the municipality.

b) Project conducted by the Central Union of Agricultural Cooperatives

- Project for the adjustment of financial conditions of the cooperatives in the merger process. To conduct surveys and studies of the factors which impede mergers, to decide on the guidance manual for financial re-arrangements, to adjust the financial conditions of the agricultural cooperatives concerned and to conduct arbitration among them.

- Special project for close guidance of multi-regional farming operations

To make up basic policies for close guidance of multi-regional farming operations, to decide on the guidance manual for setting up teams that conduct multi-regional farming guidance operations, and to study guidelines for intensive farming guidance operations in each region.

2) Validity: during 1992 to 1994

3) Budget Amount: 202 million yen

4) Ratio of Subsidy: 50%

(6) Others

The administrative measures for the merger of cooperatives focus upon the subsidization and special tax treatment described above. Additionally, administrations, at the national, prefectural, and municipal level, have guided these.

The Ministry of Agriculture, Forestry and Fisheries, mainly in the form of the vice-ministerial directives which accompany ongoing extensions and revisions of the law, has issued notices regarding practical guidelines. These notices tend to conform to the policy regarding the promotion of mergers of subsidiary cooperatives.

Furthermore, at the prefectural and municipal levels, the governments, taking regional differences into consideration, issue guidelines regarding the subsidization of the cost of mergers and other practical measures. At the prefectural level, according to research conducted by the Central Union of Agricultural Cooperatives, as of April 1, 1993, five prefectures subsidize promotion corporations under the provisions of the Merger Aid Law, fourteen prefectures subsidizes the cooperatives in the merger process that have fixed credits or a considerable amount of loss, and fifteen prefectures conduct other forms of subsidization (cost of acquiring facilities, expenses of maintaining promotion and consultation committees and so forth.)

(Table-1)

## Progress of the Establishment of Agricultural Cooperatives

		1948 Feb.	Mar.	May	Sep.	Dec.	1949 Dec.	1950 Sep.
Primary Coopera- tive	Investment Cooperative	-	-	12,011	14,631	15,154	16,892	17,406
	Non-investment Cooperative	-	-	3,909	9,948	12,665	16,299	16,840
	TOTAL	158	892	15,920	24,579	27,819	33,191	34,246
Federa- tion of Coopera- tives	Under Prefec- tural level	-	-	-	259	432	701	805
	Prefectural level	-	-	1	304	357	376	387
	National level	-	-	-	4	14	17	22
	TOTAL	-	-	1	567	803	1,094	1,214

(Source) The Ministry of Agriculture, Forestry and Fisheries

(Remarks) Aggregate numbers of Authorization of the Establishment

(Table-2)

**Progress of the Merger of Agricultural Cooperatives**  
(Unit: Number of the Merger Cases and of Cooperatives)

Classification	Fiscal Year	No. of Merger cases	No. of Coops concerned	No. of Coops at year end	Validity of Law
	1960			12,050	
Enactment of the Merger Aid Law	1961~1965	1,378	6,085 (80)	7,320	1961.4.1~1965.12.31
1st Revision	1966~1968	311	1,133 (26)	6,470	1966.5.9~1969.3.31
	1969	99	373 (7)	6,185	
2nd Revision	1970 • 1971	144	601 (7)	5,688	1970.5.23~1972.3.31
3rd Revision	1972~1974	287	1,113 (6)	4,942	1972.3.22~1975.3.31
4th Revision	1975~1977	141	450 (8)	4,657	1975.3.31~1978.3.31
	1978~1979	42	133 (1)	4,546	
5th Revision	1980 • 1981	51	135 (1)	4,473	1980.3.22~1982.3.31
	1982~1985	102	283 (4)	4,267	
6th Revision	1986~1988	124	451 (1)	3,898	1986.4.1~1989.3.31
7th Revision	1989	92	306 (0)	3,688	1989.4.1~1992.3.31
	1990	60	187 (3)	3,574	
	1991	54	221	3,394	
8th Revision	1992	93	383 (1)	3,105	1993.5.22~1995.3.31
		2,978	11,859 (145)		

(Sources) The Ministry of Agriculture, Forestry and Fisheries, and The Central Union of Agricultural Cooperatives

(Remarks) Number includes (the number in brackets), the latter corresponding to the number of specialized cooperatives.

Because some cases of merger, liquidation and organization are not done under the Merger Aid Law, or because of technical reasons of registration date, yearly decrease in cooperatives may not coincide with the number of "cooperatives concerned" minus "merger cases".

(Table-3)  
Development of Multi Purpose Cooperatives, classified per Number of the Regular Members (household)

(Unit: cooperative)

Classification/End Fiscal Year	1960	1975	1980	1985	1986	1987	1988	1989	1990
under 1,000	10,262	3,051	2,806	2,561	2,522	2,450	2,324	2,070	1,965
over 1,000~3,000		1,398	1,351	1,355	1,348	1,341	1,322	1,291	1,261
over 3,000~under 5,000	507	247	263	255	255	254	250	263	261
over 5,000		69	68	71	69	72	80	93	104
TOTAL	10,769	4,765	4,488	4,242	4,194	4,117	3,976	3,717	3,591

(Source) "Composite Statistics of Agricultural Cooperatives" by the Ministry of Agriculture, Forestry and Fisheries

(Table-4)  
Development of Multi Purpose Cooperatives, classified per Administrative Divisions

(Unit: cooperative)

Classification/End Fiscal Year	1960	1975	1980	1985	1986	1987	1988	1989	1990
Under Municipality level	10,117	2,464	2,157	1,659	1,604	1,502	1,339	1,167	1,098
Municipality level	1,806	2,140	2,129	2,129	2,120	2,082	2,060	2,013	1,968
Over Municipality level	127	199	242	479	481	488	499	508	508
TOTAL	12,050	4,803	4,528	4,267	4,205	4,072	3,898	3,688	3,574

(Source) "Statistics of Contemporary Figures of Agricultural Cooperatives and Others" by the Ministry of Agriculture, Forestry and Fisheries



(Table-5)

Summary of Corporations (Public-service Corporations)

<1> Promotion Corporation

It is a corporation of the prefectural level, and is engaged in that business centered on granting interest subsidy and in rendering guidance to merged cooperatives.

- (a) Members: prefectural unions, federations, and all agricultural cooperatives and related organizations in the prefecture
- (b) Fund: Contributed by the prefectural federations, cooperatives etc. (Contributions are allowed to count into loss account, in accordance with the special tax treatment.

<2> Assistance Corporation

It is a corporation of the national level, and is engaged in the business of furnishing fund and rendering guidance to Promotion Corporation.

- (a) Name: National Fund for the Assistance and Promotion of the Merger of Agricultural Cooperatives
- (b) Members: organizations of the national level, such as:  
The Central Union of Agricultural Cooperatives, (JA-ZENCHU)  
The National Federation of Agricultural Cooperative Associations (ZEN-NOH)  
The National Mutual Insurance Federation of Agricultural Cooperatives (ZEN-KYOHREN)

The Central Cooperative Bank for Agriculture, Forestry and Fisheries (NOHRIN-CHUHKIN) and the unions of the prefectural level

- (c) Type of Corporation: corporation aggregate
- (d) Assistance and Promotion Fund: 3 billion yen
- (e) Start of Business: September 10, 1992

(Table-6)

Summary of Principal Line of Business : Interest Subsidization

<1> Promotion Corporation, with the assistance of Assistance Corporation, shall be engaged in granting interest subsidy on loan-fund borrowed by the merged cooperatives from the banking institutions. Term of the subsidization shall not exceed five years.

<2> Amount of fixed credits to be subsidized shall be the amount of loss sustained and confirmed before the merger and the amount of fixed credits excluding amount recoverable, from both of which followings shall be deducted.

- (a) amount of credits of which recovery is secured by such guarantee as credit insurance
- (b) amount of credits counted into special account for credit amortization
- (c) amount of credits of which recovery is stipulated as attributable to the officers' responsibility
- (d) reserve for bad debts (amount indexable)
- (e) amount corresponding to surplus of the year, of the term immediately before the merger
- (f) amount corresponding to surplus brought forward from the previous year, of the term immediately before the merger

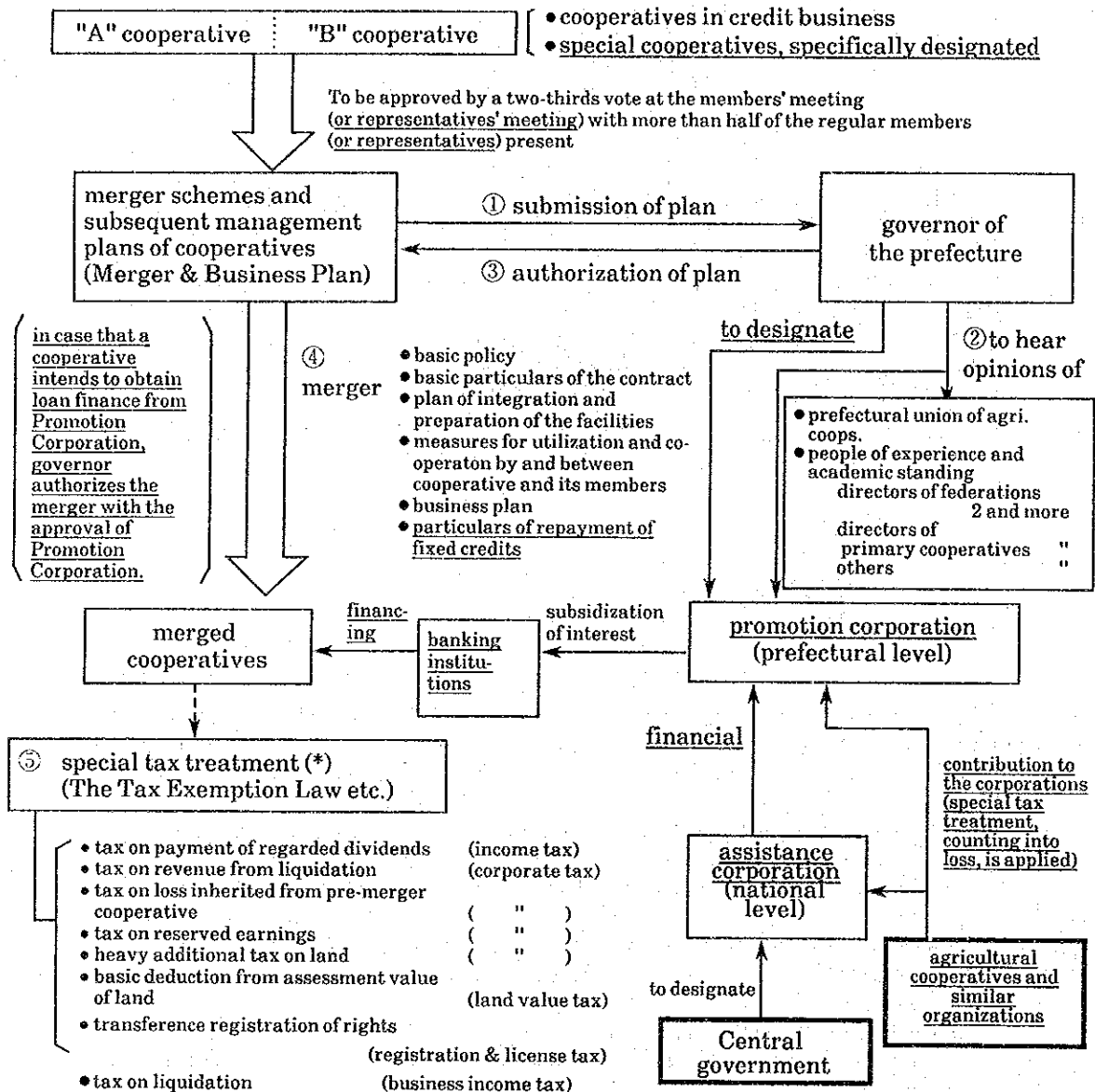
(Diagram-1)

### Summary of the Merger Aid Law and its System

1. Objective

In order to contribute to the sound development of the cooperative organization of farmers through nurturing extensively the cooperatives capable of proper and effective business operations, the Law aims to promote the merger of cooperatives, with provisions for aid necessary to assist the merger of cooperatives and establish a sound foundation of business for those that get involved in a merger.

2. The system (The underlined parts refer to the revisions made by the revised law)



(\*) To be applied to the cooperative that submits a merger and businessplan before March 31, 1995 and obtain authorization thereof.



