

Microfinance and Poverty: The Japanese Experiences

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The task of this presentation

- **Discuss the Japanese experiences on proto-microfinance, such as Industrial Associations, ROSCAs, no-interest lending of Ninomiya Sontoku, etc.**
- **Through the discussion we will have a fresh look at microfinance, especially the roles of microfinance on poverty reduction.**

State of Rural Finance in 1911 (1)

Sources of Farm Household Debts

Formal sources;

30.8 % in value

12.1 % in the number of borrower

of which cooperative type

2.9% in value

4.6% in the number of borrower

State of Rural Finance in 1911 (2)

Sources of Farm Household Debts

Informal Sources;

69.2% in value

87.9% in the number of borrower

State of Rural Finance in 1911 (3)

Dual financial structure existed

It was difficult for small farmers, tenant farmers, and ordinary people to access to formal financial institutions.

Industrial Associations

Cooperative type financial institutions called Industrial Associations existed, and had provided petty loans to small farmers.

Industrial Associations were legalized in 1900, and grew very rapidly.

Background of the cooperative type financial institutions (1)

1) Accumulation of informal financial activities

**There were many forms of informal
finance, such as Kou or Mujin (Japanese
ROSCAs), moneylending, pawnshop,
and so on.**

Background of cooperative type financial institutions (2)

2) Tradition of ethics of hard-working and thrifty, called as “Sui-jo”. This attitude of people had spread through the country by the Hotokusha movement.

Hotokushas were organized by followers of Ninomiya Sontoku who fought against poverty in rural area in the early 19th century.

The meaning of Sui-jo

Through hard-working and thrifty, generate surplus money, and use this surplus money for other people, or society, not for yourself.

Interest free lending of
Ninomiya Sontoku

No-interest lending attracted people
(easy to borrow)

Repayment by installments
(easy to repay)

Myoga-kin

If you succeed in your business by using the no-interest lending, you will express your gratitude by offering some remuneration.

Background of cooperative type financial institutions (3)

**Influenced by western ideas on
cooperatives**

**Hirata Tohsuke and Shinagawa Yajiro
who studied about Raifeisen type
cooperative in German contributed
much to the establishment of Industrial
Association Law in 1900.**

Finance and poverty reduction(1)

Informal finance such as ROSCAs, and cooperative type financial institutions, had played very important roles in providing financial services to people who were in need of money.

But it is not clear how effectively those informal finance or cooperative type financial institutions reduced the poverty.

Finance and Poverty reduction(2)

-Case of land distribution after the land reform in 1873-

After the reform, land was used as mortgage legally in credit transaction. In the 1880s, so-called Matsukata deflation occurred, and rice price declined seriously. Farmers had to pay land tax in cash. For the tax payment, farmers borrowed credits from landlords and moneylenders. Many farmers lost their farmland, and this created very unequal land distribution in prewar Japan.

Finance and Poverty reduction (2)

-Case of multiple debtors-

Now in Japan we have serious social problems of multiple debtors. Estimated number of those multiple debtors are 3.5 million. Their debts are piled up, and they have to borrow loans from another consumer loan company to pay for previous loans.

Burden of Consumer loans

Annual yearly income: 3 million yen

Amount of piled loans: 3 million yen

If annual interest is 25% in a year, then the person with that amount of loans has to pay 0.75 million yen annually for the interest. This is a serious burden.

The loan Business Act in 2006 Dec.

The ceiling interest rate will be regulated at 20%.

The total amount of loans will be restricted at one third of annual revenue.

Conclusion

Finance is a kind of well-cut knife.

You can use the knife for making good meals.

However, if you use the knife badly, you may cut yourself.

Finance for poverty reduction

Importance of;

Self-help spirit of borrowers

Sense of social mission of lenders

If money is used wisely, then the virtue of money appears. Money can contribute tremendously to the increase in economic welfare of people.