

Learning from European roots (欧州の源流に学ぶ) ①

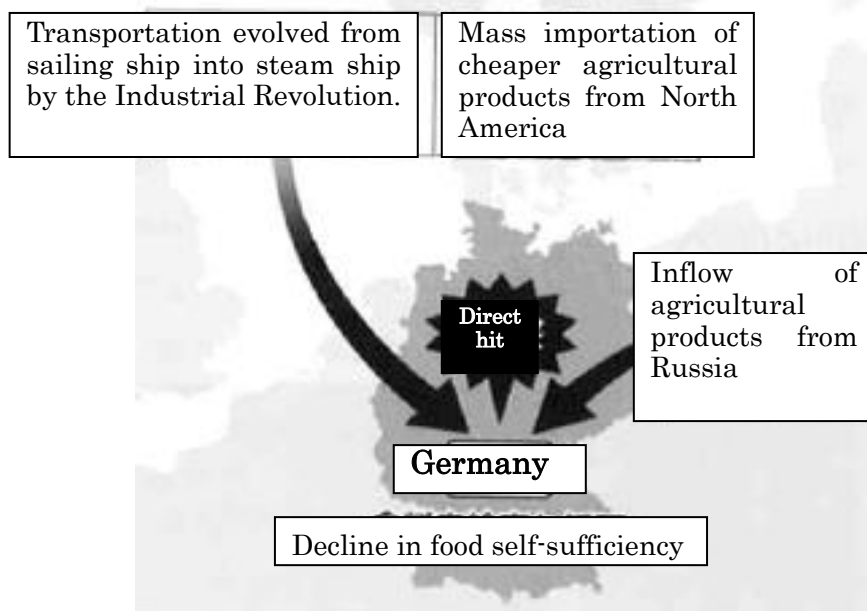
The 110th anniversary of enactment of “Sangyo Kumiai Law”

The Eve of its Birth

Establishment of credit associations to rescue people from poverty

The year 2010 marks the 110th anniversary of enactment of Japan’s Cooperative Law, or “Sangyo Kumiai Law”, which is the predecessor of Japanese Agricultural Cooperative (JA) Law, or “Nogyo Kyodo Kumiai Law”. We shall trace the history of European rural credit associations, which are the origin of JA group, and describe spirits and significances of rural cooperatives, which are still applicable to the present day and the future.

European background of price decline in agricultural products in the mid-19th century



European rural credit associations were first established in the mid-19th century, at some rural villages in the southwestern region of Germany. In those days, rural villages were extremely impoverished by the Industrial Revolution. Such associations were established to aim for self-reliance and recovery of rural economy. These movements spread from European countries to the North American Continent and Japan

at the end of the 19th century, resulting in establishment of a Japanese-style cooperative “Sangyo Kumiai”.

The origin of the Industrial Revolution can be traced to the invention of the Steam Engine

in the United Kingdom. In Germany, around the southwestern region, the capitalistic economy had developed so that mass production, mass consumption, and money economy became a reality. Such development enabled farmers to buy urban areas' agricultural materials such as feeds, fertilizers, livestock, seeds and clothes, which the people in rural areas used to provide for themselves. Rural farmers got used to depend on such purchase.

Decline of Self-sufficiency

On the other hand, rural communities rapidly lost their abilities of self-sufficiency regarding agricultural materials. Farmers were forced to continue buying or borrowing materials, while bad harvest continued, leading to falling prices of farm products and rising prices of other materials.

However, at that time, commercial banks refused to deal with farmers, and many farmers had to rely on loan sharks to finance buying or borrowing of agricultural materials such as feeds, fertilizers, livestock, seeds and clothes. After they got into heavy high-interest debt, loan sharks took away their farms as collaterals for unpaid debts. Number of them had to abandon farming. Development of new traffic and transport measures by the Industrial Revolution brought about decline of farmers' incomes.

A rise in Cooperative-spirits

With the aim of breaking the deadlock, cooperative-spirits arose with regard to the establishment of a financial institution, which could replace commercial banks or loan sharks, so as to promote mutual aid by rural habitants. At last, under the direction by the spirit of "One for all, all for the one", held up by Friedrich Wilhelm Raiffeisen, father of cooperative banks, the world's first rural credit association was established.

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The Beginning

Credit Business and Marketing & Supply Business in One Entity

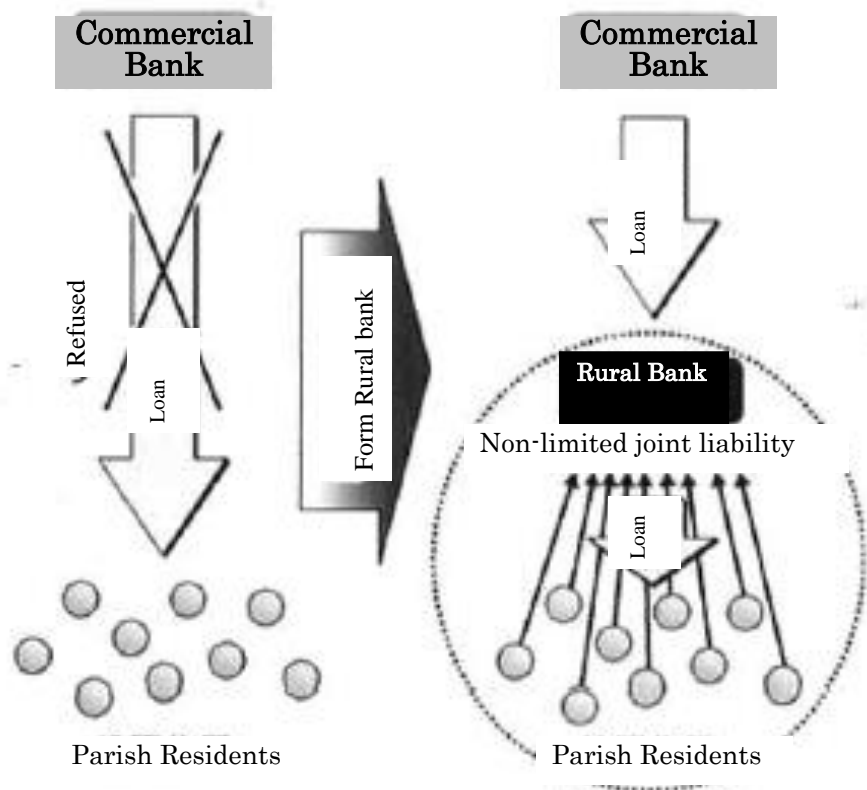
German Raiffeisenbank, the beginning of rural credit association, is said to have originated in credit association which was established in 1862 in Anhausen village in Rheinland located in southwest Germany, so as to resolve rural difficulties after the Industrial Revolution.

At first, Anhausen credit association, or Darlehnskasse-Verein, had no capital or savings,

because its members were really short of money.

The association borrowed money from banks and rich farmers and lent money to its members. The credibility of association was guaranteed by non-limited joint and several liabilities of rural habitants. Therefore, the association was dubbed the “Debt Association.”

Birth of rural bank as “Debt association”



Within a year from the establishment, the number of loans rose to about 250. The average amount of loan was

equivalent to the price of one cow. Farmers who depended on the association for finance paid back their debts on livestock or farms and expanded their scale of business.

The non-limited joint and several liability systems, which guaranteed credibility of the associations, were only possible under the members' strong ties and confidence. Such systems could work only within parishes geographically, and be managed only by inhabitants personally. It was the origin of small district system of JA in Japan.

Most of associations by Raiffeisen method, which expand later, dealt with both credit business and marketing & supply business. To keep marketing & supply business function well, it was indispensable for such business to be managed under credit business.

For example, the certain level of capital strength was indispensable to promote the development of agricultural infrastructure and the purchase of agricultural materials such as feeds and seeds. Joint sales of agricultural products, which would give farmers pricing advantage and prevent them from selling at dirt cheap prices, should require such associations to pay forwarding farmers much of advances second to none.

In consideration of this point, the credit associations by Raiffeisen method developed as a synthesized group engaged in marketing & supply business altogether. Such type of cooperatives is the origin of JA today.

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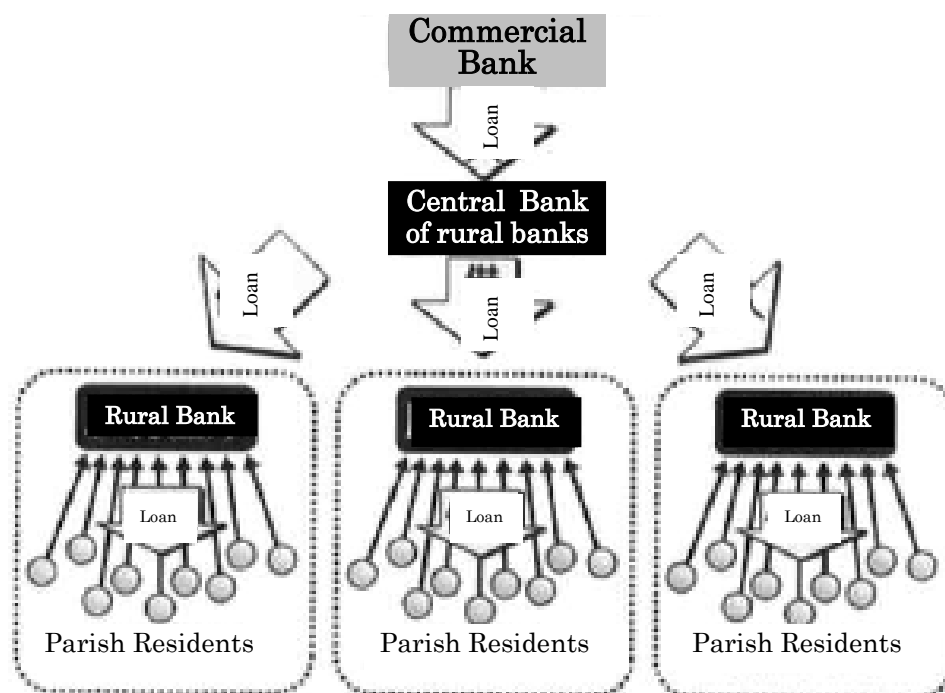
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The Development

Central Bank aiming for finance

The rural credit associations established in 1862 in Rheinland, located in southwest Germany, which were engaged in marketing & supply business were called “Raiffeisenbank”. The associations responded flexibly to farmers’ funding demands by offering low-interest and

Establishment of the Central bank



- Weak rural bank could borrow money from commercial bank through central bank formed together by all rural banks on provincial level.
- Such movement at last developed into establishment of central bank on federal or national level.

long-period loans. Such movement gained big popularity and immediately expanded over the whole country.

German Raiffeisenbank group was audited and directed by General association of rural Cooperatives for Germany or

“Generalverband ländlicher Genossenschaft für Deutschland”, which was, in Japan, adopted as the model of general association of synthesized cooperatives or “Sangyo Kumiai Chuokai”

(currently known as Zenchu). Such system reflected Raiffeisen's idea that audit and direction by the general association is indispensable for appropriate management of each association's credit business.

However, there were increasing calls for management free from strict audit and direction by general association. Under such situation, in Hessenland neighboring Rheinland, rural credit associations by Mr. Haas' method were established. The business concept of Haas group was mostly the same as Raiffeisenbank, but was characterized by new general association's loose control in region level and unlimited qualification of becoming a member regardless of place of residence.

This idea was supported by large dairy farming cooperatives in eastern Germany, and succeeded especially in marketing & supply business. The Haas method became dominant in marketing & supply business, but was disused regarding credit business. On the other hand, the Raiffeisen method became dominant in credit business, but was disused regarding marketing & supply business. As a result, in Germany where rural cooperatives originated, rural cooperatives developed into credit cooperatives using the Raiffeisen method and marketing & supply cooperatives using the Haas method.

Japanese Synthesized cooperatives, or "Sangyo Kumiai", were established based on the "Sangyo Kumiai Law" in unison under approval of double business in one entity.

Because there had been no legal system in Japan to permit other systems like Haas group, Japanese credit business and marketing & supply business in cooperatives remained in one group without separation, and resulted in the present JA group.

Raiffeisenbank group formed a merger with Volksbank group, the urban credit cooperatives for citizens and small and medium-sized enterprises, in 1970. The integrated group, "Volks-und Raiffeisenbank", grew up into the largest private financial group in Germany.

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Austria

Provincial government's role in establishing credit associations

The story regarding rapid growth of rural credit associations by Raiffeisen method spread to other European countries through newspaper reporting. With many small scale farmers similar to ones in southwest Germany, such countries introduced the same systems to resolve similar difficulties.

Especially in Austria, provincial parliament offered full support for establishment of such associations. In 1886, the provincial parliament of Niederösterreich in Austria, with the aim of recovering rural areas suffering from difficulties caused by the industrial revolution, adopted a resolution for the establishment of rural credit association by Raiffeisen method. Before adopting the resolution, three lawmakers were sent to Germany. The parliament set up a special committee aiming for establishment of rural credit associations, and promoted the move unilaterally.

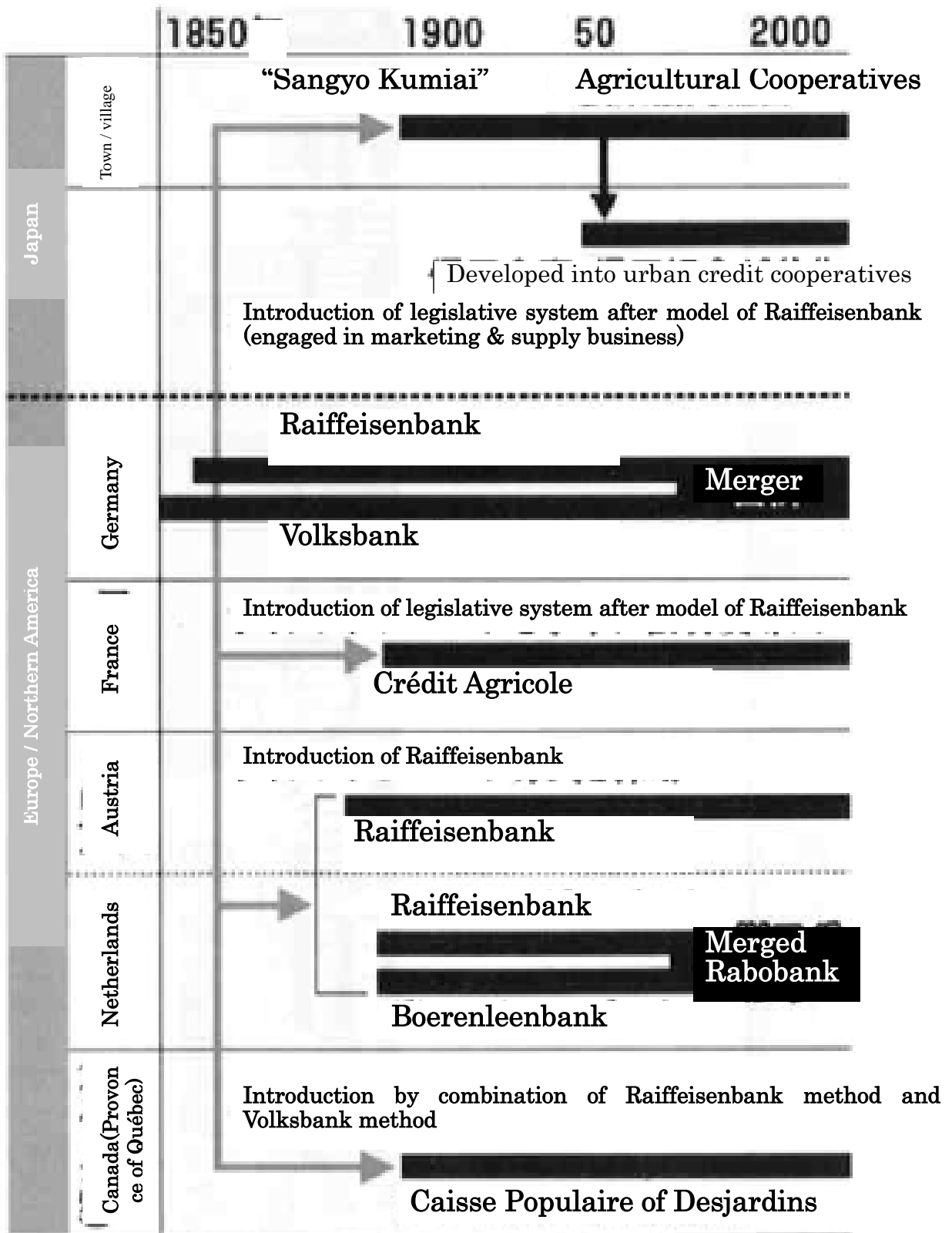
As a result, “Mühldorf Raiffeisenkasse”, Austria's first rural credit association, was established in Mühldorf village in 1886, 24 years later than in Germany. Taking this as a model, more than 600 credit & savings associations were established in Austria in the following 10 years. The Austrian style, with small distinct system per parish or village providing marketing & supply business, was similar to the German style.

The Austrian movement of introducing the system on a national level affected various countries' related cooperative legislations, such as “das Gesetz, betreffend die privatrechtliche Stellung der Erberbs-und Wirtschafts-Genossenschaften“, the German cooperatives law, in 1889, “la Loi du 5 Novembre 1894, relative à la création de société de crédit agricole”, the French agricultural credit cooperative law, in 1894, and “Sangyo Kumiai Law,” the Japanese cooperative law, in 1900. Such legislative descent indicates that, in those days, the existence and necessity of rural cooperatives came to be recognized as a national matter rather than local residents' campaigns.

Austrian rural credit cooperatives group by Raiffeisen method grew up into “Raiffeisenbank”,

the largest private financial group in Austria. There are also affiliated agricultural cooperatives covering marketing & supply business by Raiffeisen method. In rural villages in Austria, one can often see grain warehouses or storehouses wearing the trademark of Raiffeisen group.

International descent of rural credit cooperatives



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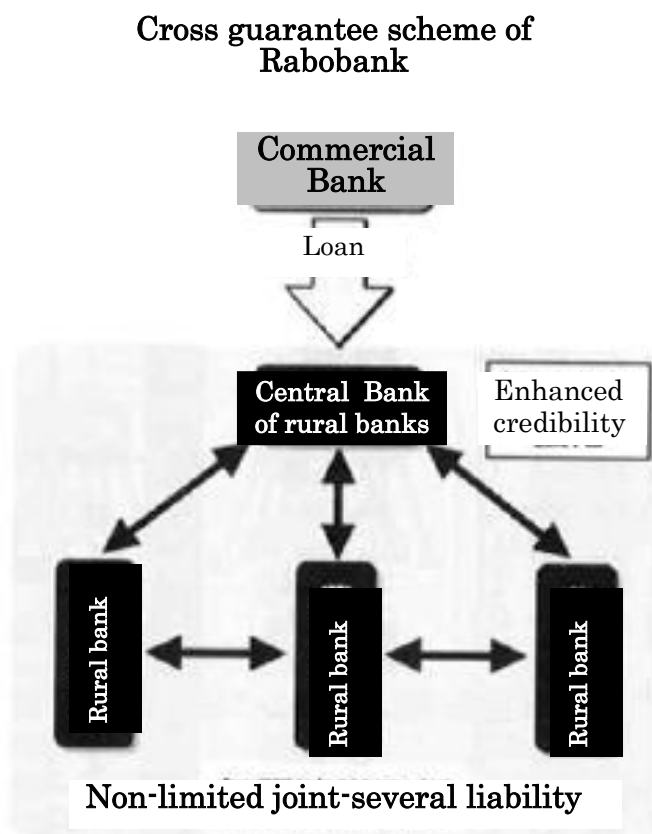
Netherlands

Credibility by non-limited joint-several liability system

In Netherlands, the first rural credit association by Raiffeisen method was established in 1896. For religious reasons, rural credit cooperatives developed in two different groups by denomination even in the same areas. Later, the two groups merged to form “Rabobank group”,

with the “cross guarantee scheme” in which all member banks and central banks jointly and severally guarantee the liabilities of each other. The present group is characterized by sound management and high credibility.

In this country, all sequences of life, such as church and school, are divided into two systems by Christian denomination. Rural credit associations for Protestants in northern areas developed into “Raiffeisenbank” and associations for Catholics in southern areas developed into “Boerenleenbank (Agricultural credit bank)”. Each of the two groups also established a central bank on a national level by



denomination. Because of the similarity of business, the two groups had been informally called “Ra-bo-bank”, an acronym name created by combining the first sounds of their names.

The turning point of the groups was the Great Depression of the 1920s. As they faced a credit crunch, the groups’ central banks became unable to borrow money from commercial banks,

thus failing to provide money to rural credit cooperatives.

To overcome this difficulty, the groups build the cross guarantee scheme with non-limited joint-several liability system by rural credit cooperatives and their central banks. This scheme gave the central banks high credibility and strong ability to finance.

The Dutch central bank, which is responsible for banking supervision, commissioned the central banks to supervise and monitor management of their member rural credit cooperatives. Owing to this scheme, strong discipline worked between rural credit cooperatives and central banks. The group could avoid failure and realize sound management, and they succeeded to gain more trust of inhabitants as a result.

In 1972, the two groups were integrated and adopted “Rabobank” as its formal name. The cross guarantee scheme, which was created as an emergency measure to cope with financial difficulties during depression, maintained credibility even during the financial crisis two years ago. Rabobank group is the only major bank which is indigenous to Netherlands, and grew up to be the most excellent agricultural bank to provide key knowledge regarding agricultural finance to banks all over the world.

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France

State government’s promotion of the specialized credit business

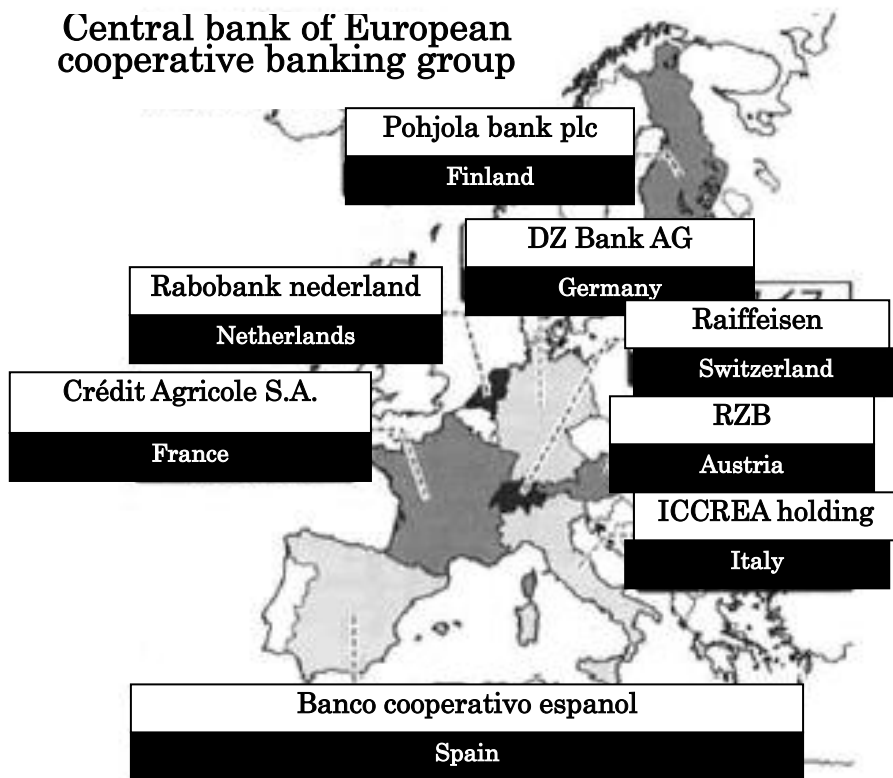
Rural credit associations by Raiffeisen method, which spread over European countries, originated in local residents’ campaigns, and basically managed marketing & supplying business. On the other hand, in France, where promotion of the agricultural industry led to the nation’s prosperity, the French government established “Crédit Agricole” as the state undertaking. The group was characterized by specialized agricultural finance business for

agricultural cooperatives and members of agricultural cooperatives.

In the 19th century, western European financial system developed around Germany where the banking industry including Jewish bankers was active. Meanwhile, in France, such financial infrastructure was insufficient.

There were increasing calls from the French public that vitalizing agriculture, the fundamental industry, is inevitable for the development of France, and

Central bank of European cooperative banking group



that the government should immediately take measures to finance the agricultural industry.

The French government established 19 imperial agricultural banks, but such banks ended up in dissolution due to irrecoverable loans towards Egypt in financial failure. Later, in 1884, agricultural cooperatives, or “Syndicats Agricoles”, were established in towns and villages, based on the Liberal Association Law, or “la Loi Waldeck-Rousseau de 1884 ,” but such establishment did not result in construction of financial infrastructure to provide agricultural loans at low interest rates and long repayment periods.

During such trial and error, rural cooperatives by Raiffeisen method developed in Germany. Jules Méline, a member of the French parliament from Vosges prefecture, proposed a member’s bill regarding establishment of agricultural credit cooperatives, or “Crédit Agricole Mutuel”, in towns and villages, to provide agricultural loans to Syndicats Agricoles and their members, following the model of rural cooperatives by Raiffeisen method. The enacted “société de credit agricole” was later amended to give the government the additional power to offer low-interest, long-term loans.

By 1930, 6,000 local banks, or “Caisses Locales du Crédit Agricole,” were established. To promote the agricultural industry, the government actively encouraged the introduction and establishment of such cooperatives. Utilizing cooperatives as part of the national industrial policy is very similar to the history of how “Sangyo Kumiai” developed in Japan.

The mission of “Crédit Agricole” in those days was to provide national agricultural loans to Syndicats Agricoles and their members immediately, so as to promote French agriculture. In this country, the existing Syndicats Agricoles managed marketing & supply business, and Crédit Agricole, which later branched off from the Syndicats Agricoles, managed credit business.

The combination system of local cooperatives banks and government-owned central bank continued until 1988. Currently, the whole group is privatized and has grown up into the largest retail banking group in France.

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Canada

Limited liability system supported by the public

The idea of rural credit cooperatives by Raiffeisen method, which developed throughout Europe, was brought to the New World. In the province of Québec in Canada, Alphonse Desjardins studied the idea and established a credit union, or “Caisse Populaire”. The credit

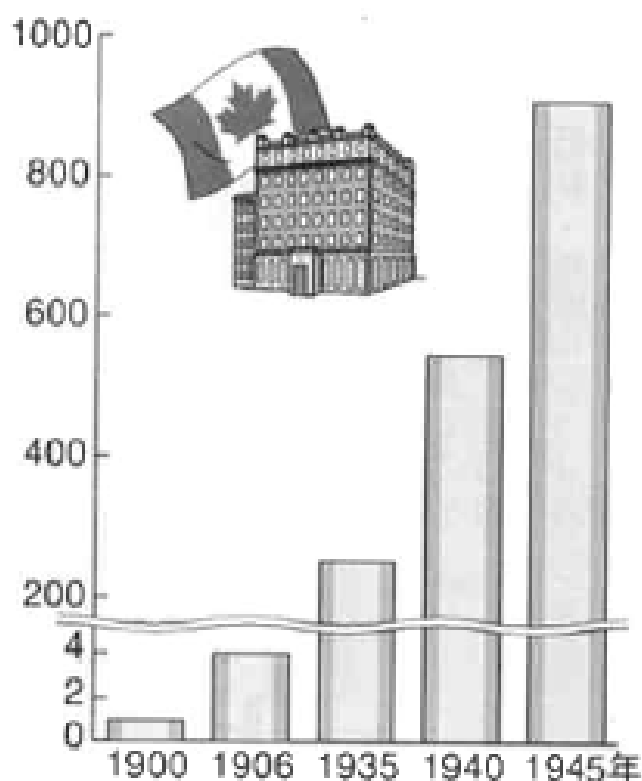
union established in Canada was characterized by the limited liability system, which enabled citizens such as merchants, craftsmen and workers to become members easily.

In the latter half of the 19th century, Canadian commercial banks were mainly engaged in wholesale banking for large customers dealing with international business, and refused to do business with poor workers and farmers. As a result, many people were forced to borrow money from loan sharks, who sometimes set a rate of 3,000 percent per year on their loans.

Desjardins, a stenographer of the Canadian parliament, got

Development of Caisse Populaire of Desjardins

(Number of caisse populaire)



very angry at learning such a situation. Through exchanges of letters, he studied the mechanism of European credit associations in both rural and urban areas, such as rural credit cooperatives by Raiffeisen method and “Volksbank,” a bank for citizens such as merchants, craftsmen and workers.

In 1900, at Lévis city in the province of Québec, Desjardins established the first credit union, or “Caisse Populaire”. “Caisse Populaire” and “Raiffeisenbank” share the common characteristics. Both systems were established in parishes in rural areas where most people lived.

However, “Caisse Populaire” dealt only with credit business, because unlike farmers, citizens such as merchants, craftsmen and workers did not need marketing & supply business. It was largely different from rural credit cooperatives by Raiffeisen method, which also dealt with marketing & supply business. In addition, “Caisse Populaire” adopted limited-liability system which made urban residents become members easily, because in the case of failures, members’ liabilities for the losses would be limited to the amount of their shares.

On the other hand, rural credit cooperatives by Raiffeisen method adopted non-limited joint-several liability system in those days. If such cooperatives failed, all members had to pay back debts of their cooperatives to the full extent of their assets.

Interest rate of loan by “Caisse Populaire” was attractively kept on around 4~5 % per year. Careful lending attitude enabled “Caisse Populaire” to realize sound management and steady growth. Presently, the “Caisse Populaire” group has grown up into “Desjardins group,” the largest bank in the province of Québec and the sixth largest bank in Canada.

The idea of “Caisse Populaire” was also brought into the United States, and helped the birth of “Credit Union,” American credit cooperatives formed by small groups of people with some common bond such as workplaces. Such Credit Unions supported the lives of residents in the first half of the 19th century.

Desjardins, who gave birth to “Caisse Populaire” in the province of Québec and to “Credit Union” in the United States, is called the father of North American credit cooperatives.

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Japan

Aiming for self-reliance of rural economy

The idea of rural credit association by Raiffeisen’s method was brought to Japan by a German advisor for the Japanese government and several high-ranking Japanese government officials who had studied in Germany. Owing to their efforts, Japanese-style cooperative law, or “Sangyo Kumiai Law”, was enacted, and many regional cooperatives -- predecessors of the present Japan Agricultural Cooperatives, or JA -- were established.

In the latter half of the 19th century, rural areas in Japan were facing difficulties, due to the government’s deflation-inducing policies aimed at dissolving inflation, which was caused by raising funds to finance the “Seinan War” to subdue discontented former samurais in southwestern regions. Due to the income fall caused by the decline of prices of agricultural products, farmers struggled with heavy land tax, and relied on loan sharks such as landlords.

More and more farmers became incapable of paying high interests, and their farms were taken away by loan sharks. Retracting move was not allowed in rescuing farmers from loan sharks and ensuring independence and growth of rural economy.

Tosuke Hirata, who had been to Germany to study, and Dr. Eggelt, German advisor for the Japanese government, as well as other high-ranking officials, considered that it would be indispensable and useful for activation of rural areas to establish rural cooperatives dealing with both credit business and marketing & supply business by Raiffeisen method.

In 1900, owing to leadership of Hirata and others, the Japanese government enacted Japanese-style cooperative law, or “Sangyo-Kumiai Law,” which adopted the idea of a rural cooperative by Raiffeisen method, including introducing the system of non-limited joint-several liabilities in small districts.

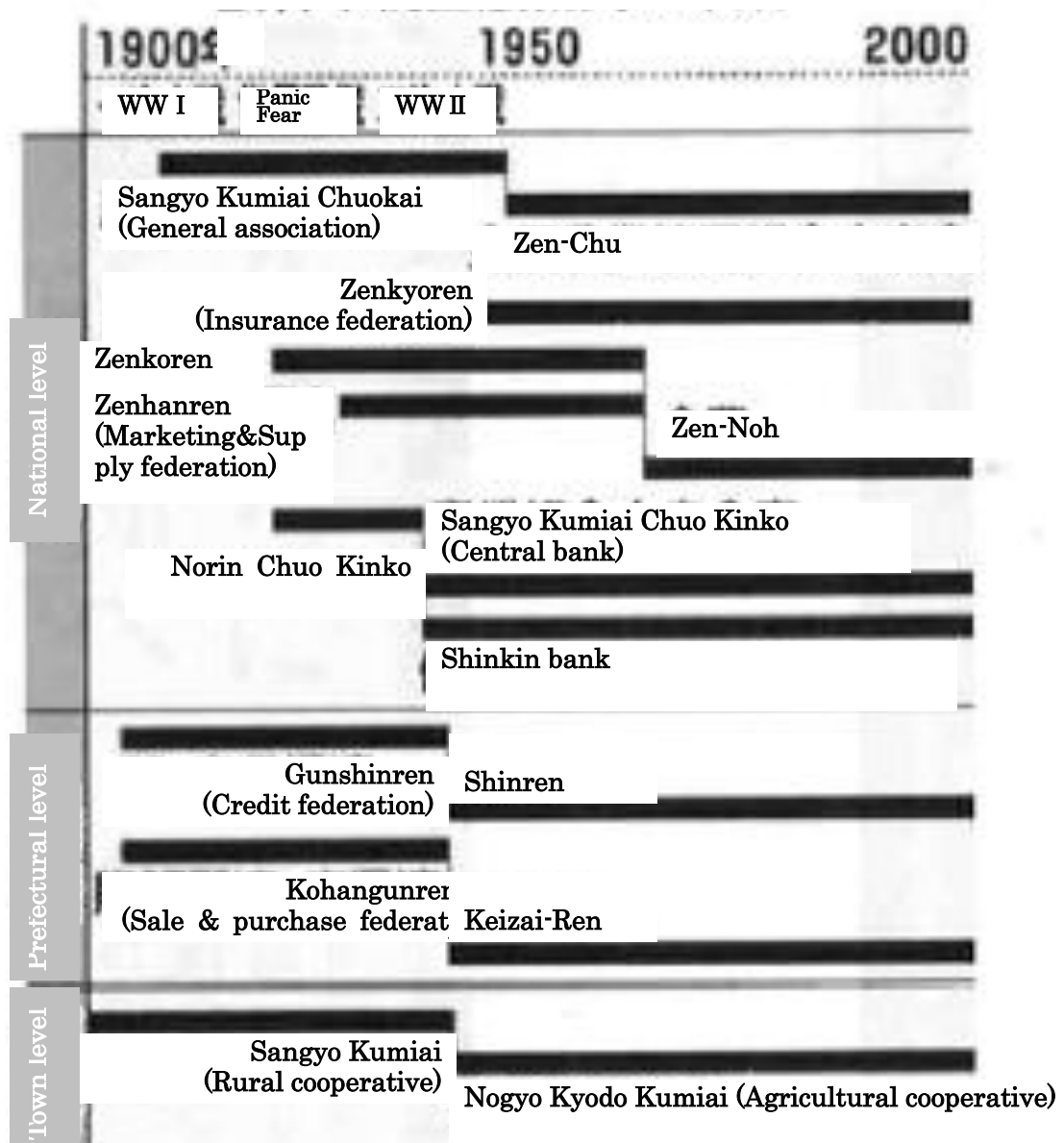
When the law was enacted, the movement of establishing “Sangyo - Kumiai“ was slow, as the Ministry of Finance prohibited entities to engage in two businesses, i.e. credit business and marketing & supply business. However, after the law was amended in 1903 to allow one entity to engage in two businesses, the movements of establishing cooperatives spread rapidly, and in 1915, more than 10,000 of them were established. “Gunshinren,” county-level federations of

cooperatives, and “Kohangunren,” county-level federations of cooperatives dealing with marketing & supply business, were also established. “Sangyo Kumiai Chuokai” (currently called Zenchu), the national association of cooperatives which was responsible for supervising and auditing member cooperatives, was also established.

Since rural financial infrastructure still remained inefficient, the Japanese government established “Kangyo Bank (now Mizuho Bank)” on the national level and “Noko Bank (now branches of Mizuho Bank)” on the prefectural level, whose tasks were to provide money to “Sangyo Kumiai” on town and village levels. However, such banks were reluctant to lend money backed by the non-limited joint-several liability system of “Sangyo Kumiai.”

“Sangyo Kumiai” group became aware of the necessity to create a central bank of its own,

History of Japanese rural cooperatives



and demanded the Japanese government to establish a central bank for “Sangyo Kumiai”. In 1923, “Sangyo Kumiai Chuo Kinko” (now Norinchukin) was established, modeled on Preußen Central bank for cooperatives, or “Preußische Zentralgenossenschaftskasse.” “Zenkoren,” a national federation of the supply business division of cooperatives, was also established the same year, and later merged with “Zenhanren,” a national federation of the marketing division of cooperatives, to become Zen-Noh.

After World War II, rural functions of “Sangyo Kumiai” were restructured into JA group, which was allowed to engage in the mutual insurance business, and the national mutual insurance federation of agricultural cooperatives, or “Zenkyoren”, was established. Such development led to JA group of today.

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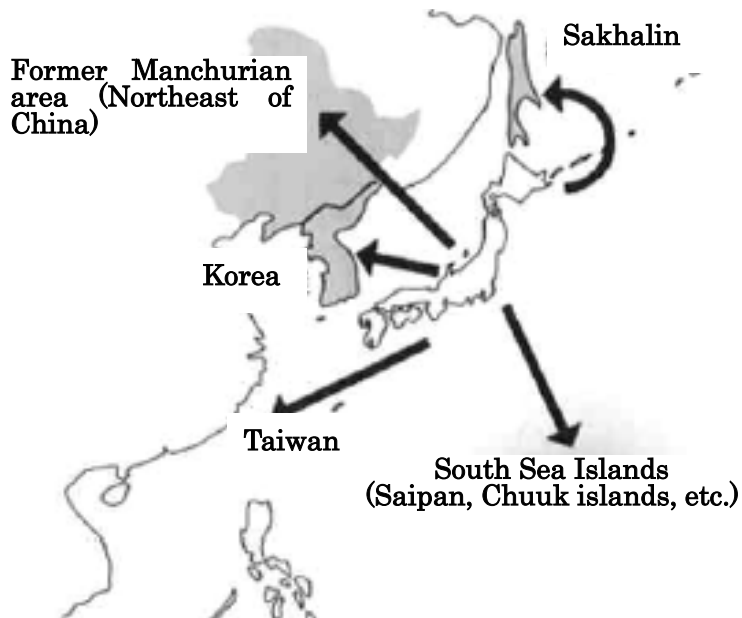
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East Asia

Cooperatives established one after another under small distinct systems

After the Japanese “Sangyo Kumiai Law” was enacted in 1900, establishment of East Asian “Sangyo Kumiai” occurred one after another under the rule of Japan. Such cooperatives were characterized by small distinct systems, and spread over the Korean peninsula, Taiwanese China). Rural cooperatives in South Korea and Taiwan, tossed about by the times in process

Expansion of “Sangyo Kumiai” over foreign areas under the rule of Japan



of development, grew up into cooperatives running both credit business and marketing & supply business. Such cooperatives are now active in promoting agriculture and rural areas.

Taiwanese “Sangyo Kumiai” were established while Taiwan had been under the rule of Japan since 1895. The cooperatives were engaged in both credit business and marketing & supply business, and contributed to modernizing Taiwanese agriculture and rural areas, together with irrigation system

introduced at the same time.

In 1943, the Japanese government established the food-control and delivery organization, or “Nogyo Kai”, by combining “Sangyo Kumiai” and an agricultural consultancy organization “Noh-Kai.” In the same way, the Taiwanese “Nogyo-Kai” was established and converted into “Farmers association”, which now deals with both credit business and marketing & supply

business.

On the other hand, in Korea which Japan annexed in 1910, Korean credit cooperatives, or Korean “Kinyu Kumiai”, and Korean marketing & supply cooperatives, or Korean “Sangyo Kumiai”, were established. However, the two systems were not allowed to be managed in one body.

Both systems were merely units of the Korean government-general, which executed development business such as production increase of Korean rice. As the government placed importance on military strength, such system did not always contribute to developing Korean local communities.

Even after World War II ended and South Korea became independent from Japan, the two systems still remained separated. In 1961, the new government directed integration of the two systems, so that the Agricultural Bank (former “Kinyu Kumiai”) and former Agricultural Cooperative (former “Sangyo Kumiai”) merged to form a new agricultural cooperative, or “Nonghyup”. Through democratization, now the group has grown up into an integrated agricultural cooperative group.

As for other regions formerly occupied by Japan, Sakhalin islands became a part of former Soviet Union, and Manchuria was returned to China. “Sangyo Kumiai” groups were dissolved in these areas, as the socialist governments in those days prohibited creation of privately-owned production facilities. In Eastern Europe, rural cooperative groups by Raiffeisen method were dissolved for the same reason.

In western European countries, rural cooperatives’ credit business and marketing& supply business gradually developed into two different systems specializing in each business. Meanwhile, in Japan, based on “Sangyo Kumiai Law”, a rural cooperative group dealing with both credit business and marketing& supply business in one body was established. In East Asia, after many twists and turns, rural cooperatives grew up into an integrated group dealing with both credit business and marketing& supply business in one body.