▲ PREVIOUS PAGE

ZRC/96/RSP.4
November 1996

ZENGYOREN REGIONAL CONFERENCE ON INSURANCE AND CREDIT FOR SUSTAINABLE FISHERIES DEVELOPMENT IN ASIA

Tokyo, Japan, 11 -15 November 1996

OVERVIEW OF INSTITUTIONAL FINANCE (GOVERNMENT-PROGRAMMED LOANS) FOR FISHERIES IN JAPAN

Toshihiro Hirota
Fisheries Division, The Norinchunkin Bank
Japan

Abstract

For many years, Japanese fisheries enterprises have been supported by very substantial institutional, government-programmed finance; during the 1990s, for example, such finance has averaged some 2.8 trillion yen per annum. This form of assistance can be defined as finance provided by the national government or municipal governments through Treasury funds or grant interest subsidies extended to private financial institutions to enable them to make a variety of loans to the fishing industry. It is, in effect, partly an instrument of government policy. There are two main channels for these loans: the Treasury funds system permitting low interest loans from such government financial institutions as the Agriculture, Forestry and Fisheries Finance Corporation and loans extended by fisheries cooperative groups who are provided with special interest subsidies or deposits by the national and prefectural governments. In the case of the funds channelled through fisheries cooperative groups, four types of loans can be identified: fisheries modernization loans, emergency loans, enterprise management improvement/training loans and loans to improve distribution and marketing systems. The author concludes that, while these mechanisms have efficiently served the Japanese fishing industry in recent decades of both production and marketing difficulties, new measures are now required, perhaps through a credit guarantee scheme for small and medium scale fisheries, to enable the sector to meet future challenges.

OUTLINE OF INSTITUTIONAL FINANCE FOR FISHERIES IN JAPAN (GOVERNMENT-PROGRAMMED LOANS)

The amount of loans outstanding in the fishery sector by all financial institutions at the end of fiscal year 1995 (31/03/1996) was approximately 2.87 trillion yen. In the past 6 years, this amount had been at the 2.8 trillion yen level, increasing at a low rate. The main reasons for low growth are weak demand for funding reflecting the worsening fishery environment and declining management strength and credibility.

The amount of loans outstanding comprises of 1.3 billion yen (46%) for facilities and equipment and 1.6 billion yen (54%) for operating funds. The former portion has been decreasing annually after 1990 and, in contrast, the latter portion has been increasing after 1990.

Composition of the loans outstanding by financial institutions

Government Financial Institutions	1.5 trillion yen (51%)
Cooperative Financial Institutions	0.4 trillion yen (15%) (a)
Other Financial Institutions	1.0 trillion yen (34%) (b)

Note:
a) Cooperative Financial Institutions are 3-tier institutions which consist of primary fishery cooperatives at village, town and city level, prefectural credit federations of fishery cooperatives at prefectural level and the Norinchukin Bank at national level.
b) Other financial institutions include city banks, regional banks etc.

Major elements of institutional finance for fisheries are Agriculture, Forestry and Fisheries Finance Corporation (AFC) loans, and Fishery Modernization Loan and Emergency Loans (loans to stabilize fishing entity's management).

SIGNIFICANCE AND ROLE OF INSTITUTIONAL FINANCE FOR FISHERIES

Institutional finance is defined in general as financing in which the national government or municipal governments lend treasury funds, grant interest-subsidies to private financial institutions' loans, etc. in order to implement national policy.

In comparison with other subsidized business, institutional finance has special characteristics. In general, there are fewer administrative restrictions and borrowers can themselves decide their business management. In case of interest subsidies, government fiscal expenditures last longer. By contrast, however, governments can enjoy less fiscal expenditure in the first stage.

THE SYSTEM OF INSTITUTIONAL FINANCE FOR FISHERIES

The system is composed of two elements, treasury funds and funds originating from fishery cooperative groups.

Treasury Funds System

Institutional finance by treasury funds fundamentally means low interest-rate loans lent by government financial institutions (AFC, Japan Finance Corporation for Small Business, People's Finance Corporation, etc.). However, it also includes institutional finance by treasury funds of the national government and local public entities.

The role of institutional finance by treasury funds is to supply funding in pursuance of national policy and to supplement private finance institutions, in cases where private financial institutions cannot lend because of the low grading of borrowers' credibility or shortage of security or collateral; the borrowers' repayment term being too long; or for other unfavorable reasons.

The Government institutions' loan interest rate is decided depending on the original interest rate of the treasury investment and loan (which is adjusted by Cabinet Order based on the nominal rate of interest-bearing long-term (10 year) interest-bearing long-term government bonds). For this reason, they can provide borrowers with long term and low interest rate funds.

Funds System Originating From Fishery Cooperative Group

Institutional finance with funds originated from fishery cooperative groups relate to low interest rate loans lent by the group institutions (primary fishery cooperatives, prefectural credit federations of fishery cooperatives and the Norinchukin Bank). The funds are supplied from these institutions' deposits. There are two ways to implement low interest rate loans:

(a) Interest subsidies provided by the national and prefectural governments.
(b) Deposits of national and prefectural governments and other public entities to these institutions.

The loans to fisheries enterprises are mainly supplied by fishery cooperative group institutions. To supplement these institutions' credibility, there is the Small and Medium-scale Fisheries Credit Guarantee and Insurance System. This system plays an important role in the smooth development of this type of institutional finance.

OUTLINE OF MAJOR INSTITUTIONAL FINANCE

Treasury Funds

As shown in the following table, loans from Agriculture Forestry and Fisheries Finance Corporation (AFC) represent the majority of the funds outstanding.

Outstanding Amount of Governmental Institutional Finance for the Fishery Sector

(Unit: billion yen)

	1990	1991	1992	1993	1994
Total of Government Institute Loan (a)	517.0	508.0	480.7	448.9	423.7
of which, AFC's Loan (b)	496.8	489.0	464.7	431.5	407.8
b/a (%)	96.1	96.3	96.7	96.1	96.2

The AFC was established in 1953 under the Agriculture, Forestry and Fisheries Finance Corporation Law and capitalized exclusively by the Government. The purpose of establishment was for "lending to agriculture, forestry and fisheries business long-term and low-interest funds needed for maintaining and promoting the productive capacity of agriculture, forestry and fisheries, in the cases when the Norinchukin Bank and other financial institutions cannot lend these funds." AFC loans are extended directly from AFC branch offices or through agent banking institutions such as banks. (AFC's lending procedure is shown in Chart 2).

Loan conditions differ depending on the loan purposes. Interest rate ranges from: 3.0 - 3.45%, term: 5 - 25 years. Table 2 shows the amount of loans and Table 3 shows the amount outstanding.

The amount of loans extended reached a 10 year peak in 1989 to 112.4 billion yen. However, since then, the amount has decreased and remained at a much lower level, reflecting decreased demand due to management environment deterioration and other reasons. The amount in 1995 was 35.4 billion yen, approximately one third of the amount in 1989. Regarding loan use, there has been a sharp decrease in loans for fishing boats. There has also been a decrease in the annual amount of loans outstanding. On March 31 1996, at the end of 1995 fiscal year, the amount was 344.9 billion yen.

Funds Originating from Fisheries Cooperative Groups

The main types of loans are as follows:

a) Fisheries modernization loan,
b) Emergency loan,
c) Fisheries enterprise's management improvement and promotion loan,
d) Production distribution and other facilities upgrading loan for fishery products.

a) ***Fisheries modernization loan***

i) *Purposes of loan*

This loan system was established in 1969 to respond to the fisheries enterprise's needs, and to contribute to the upgrading and modernization of their capital equipment.

This loan's lending procedure is shown in Chart 3.

ii) *Loan conditions are:*

Interest-rate: 3.2 - 3.3%, term: 5 - 20 years. Table 3 shows amount of loans extended and Table 4 shows loans outstanding. Both tables are classified by use).

After its establishment in 1969, the amount of loans extended increased annually, because of easing of lending conditions (e.g. increased range of borrowers and expanded loan ceilings). However, after a peak in 1979 (105.6 billion yen), the amount has decreased.

In fiscal year 1995, the amount of loans extended was 61.4 billion yen, even though the budgetary maximum amount of loans was 125 billion yen. Regarding loan use, there has been a sharp decrease in loans for fishing boats and a rise in loans for aquaculture (fish farms). There has also been a decrease in the annual amount of loans outstanding, after the highest amount in 1979. On December 31, 1995, the amount was 248.4 billion.

b) ***Emergency loans (Management stabilization loans)***

Emergency loans are interest-subsidized loans and were established to support fisheries enterprise management.

The major loans of this type are:

i) *Management maintenance and stabilization loan for fisheries enterprises*

This loan was established in 1976 to lend funds for liquidating debt burdens of small- and medium-scale fisheries enterprises which could not obtain funds for rehabilitation. Some factors contributing to the deterioration were the first "Oil Crisis" and the worldwide establishment of 200-mile exclusive fishery zones.

Loan conditions: Interest-rate: 3.1 - 3.75%, term: 7-10 years.
Amount of loans extended and outstanding (1995 fiscal year). Loan amount budget: 22.0 billion yen, loans extended: 3.5, loans outstanding: 14.2. The lending procedure for this type of loan is shown in Chart 4.

NEXT PAGE