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**SEMINAR ON INFORMAL FINANCIAL MARKETS
IN DEVELOPMENT**

THE KOU IN JAPAN: A PRECURSOR OF MODERN FINANCE

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ABSTRACT

Various types of informal savings and credit associations have a long history in Japan, the main types being called kou or mujin. Author argues that the kou and mujin had a strong influence on current day credit cooperatives and mujin-companies in the country. Concludes that more attention should be given to informal finance by policy makers who want to provide more formal financial services for common people.

THE KOU IN JAPAN: A PRECURSOR OF MODERN FINANCE

by

Yoichi Izumida

Much of the recent literature on rotating savings and credit associations (ROSCAs) and on other informal savings and credit groups has concentrated on low income nations, and, as a result, it is increasingly acknowledged that savings and loan groups are a common form of financial intermediation in these countries (Bouman). It is less well recognized, however, that these types of informal groups also played an important role earlier in some nations such as Japan that now have modern financial systems.

These groups in Japan are called kou and they were a very popular form of financial intermediation, especially in rural areas, until the middle part of the 1900s. Kous were deeply rooted in Japanese society and the kou spirit is still alive in many places even though kous are now rare. Japan's experience with kous may provide interesting lessons for low income countries that are currently struggling to modernize their financial systems, the most important lesson being that long and accumulated activities of informal savings and loan groups can provide a foundation for modern financial development.

The objectives of this paper are to describe briefly the development of kous in Japan and to discuss their influences on modern financial institutions--especially the rural credit associations¹ and the urban mujin companies.

Origin of The Term 'Kou'

Kou is a simplified name for ROSCAs and group savings and loan associations in Japan. Sometimes the more comprehensive terms of tanomoshi-kou and mujin-kou (or simply mujin) have been used to describe group savings and credit associations. Presently, the meanings of tanomoshi-kou and mujin are almost the same with only slight differences. Tanomoshi-kou connotes mutual-help or helping the poor, while mujin-kou suggests money-making or finance. In rural areas the term tanomoshi-kou has been more frequently used, while in urban areas the term mujin is more common.

The original meaning of the word tanomoshi was to ask for something, while the early meaning of kou was to discuss, exchange opinions, and have a meeting or association for clarify truth. The origin of the term kou appears to have come from

¹Credit associations were actually predecessor of present agricultural cooperatives in Japan, although other types of cooperative such as merchant associations and urban credit associations have the same roots. But, the credit associations in rural areas made up the majority of these associations.

associations of monks who assembled to discuss the doctrine of Buddhism. The term mujin also has Buddhist roots.

In Buddhist literature the term mujin means the absolute, unlimited, and inexhaustible world. In ancient India one faction of Buddhism concluded it was not reasonable to waste temple offerings and that these offerings should be used for some worthwhile purpose including supporting temples and lending to individuals in need. This was termed mujin-in-goods and this practice extended into Japan. Over time, mujin came to be known in Japan as a lending institution of goods or funds and gradually securities such as mortgages and other guarantees were required on some types of mujin loans on which interest was charged (Zenkoku Sougo Ginkou Kyoukai, 1971)

From the Meiji period to just before World War II (1868-1940), kous and other forms of informal finance were very important sources of financial services for ordinary people, for farmers, and for small business.

Development of Kou in Japan

The oldest document referring to Kou in Japan is dated 1275 A.D. Some researchers feel that the Kou system was introduced to the country in the 12th or 13th Century at the latest. During this period pawnshops, called mujin-sen (mujin money), were also common. It is surprising how little the basic structure of kou changed from the 12th Century to modern times. An example of a kou contract written in 1345 A.D. describes this basic structure (Nippon Sogo Ginkou, 1967. p.21) Six points are worth noting in this contract:

1. Members made a written contract at the first meeting and agreed to abide by the rules of the Kou.
2. Members had the duty to pay a certain amount of money at each meeting, except at the meeting when they received the fund. If a member who had not received a fund did not fulfill all of the obligations of being a kou member, he or she lost the right to draw a fund. Members who had received funds, and later defaulted on their obligations, suffered compulsory exclusion from the group and also were punished in other ways.
3. Rotation of the fund was determined by lot.
4. Members who had received a fund had no right to participate in further drawings, but must meet their payment obligations. To guarantee that they continued to pay into the fund members were sometimes required to offer two cosigners who were members of the association.
5. Members met two or three times a year.

6. After all members had received a fund, the Kou might be disbanded.

These ancient rules are similar to kou rules found in modern times, with some important evolutionary changes. By the 14th or 15th Century the fund rotations in some kous were determined by bidding rather than by simple drawing of lots, and Kous including property mortgages had appeared.

In the Edo Period (1603-1867) kous were reported to be common in both rural and urban areas throughout the country. Some farmers were reported to use kou funds for operating expenses or for investment capital. While aggregate measures of the total volume of funds moving through kous are not reported, some authors mention that the value of funds in kous amounted to thousands of units of gold. Especially in kous operated by merchants, the total value of the fund and the frequency of meetings increased during the Edo Period. The number of oya-nashi-kou--kou were set up not to help particular individuals--also was reported to have increased in the cities.

In Samurai (warriors) society, kou was also popular and some feudal clans tried to utilize a form of kou as a fiscal instrument to fund public finance. Various new forms of the kou were also invented during the Edo Period. These forms included arrangements whereby the fund as well as share payments were varied in amounts. Also, it is worth noting that in this period new methods of transferring rights in kou, buying and selling shares in kou, and kou mortgages were established. These financial innovations laid the foundations for the later formation of mujin-companies in urban areas (discussed later).

Still another innovation was the formation of gambling kous called torinoki-mujin in which members did not pay further into the mujin after winning a fund. These appeared in many urban areas, especially in conjunction with temples. Later lotteries in the country were based on these gambling kous.²

To illustrate the system of Kou in the Edo period, a typical example from a village near Osaka is described in Table 1. This Kou was instituted to help a farmer named Oya (parent), who had a pressing need for a relatively large sum of money. The kou involved a total of 11 members who had one meeting per year, with Mr Oya getting the first fund. After the first meeting the rotation of the fund was determined by bidding. Two interesting points stand out in this case. First, the original purpose for Mr Oya organizing the Kou was mutual help, but after the first meeting the kou took on the functions of intermediating between those who wanted to receive the fund early--borrowers--and individuals who received the fund late--depositors.

Second, as the last column of Table 1 shows, the ratio of total-payments-made to the kou to-funds-received ranged from 1.54 to 0.47. It can also be seen in the

²Gambling activities brought social problem on many money-losing people, so Japan's feudalistic government prohibited them for a time.

Table that the effective interest rates paid by the second and third receiver of the fund--who needed funds urgently--were fairly high. On the other hand, the members who received the fund in the 8th through 11th position--individuals who were effectively depositors in the kou--received relatively high interest rates on their savings. This particular Kou served two functions: mutual help for Mr Oya and financial intermediation for the other 10 members.

Kou in the 20th Century

During the Meiji Period some western type financial institutions were introduced but informal finance continued to provide the bulk of the financial services in the country. According to Asakura (1961), the total amount of disbursements from pawnshops alone exceeded those of banks in around 1880. Reports from various branches of the Central Bank of Japan described the state of Kou around 1910 as follows: In Kyoto Prefecture, there were 985 registered Kou and the number of members was as large as 149 thousand. In Fukushima Prefecture it was reported there were about 4,000 Kou, and in Hiroshima 22,376 Kou with 3,907 thousand yen in kou funds.

Several years later a survey provided nationwide statistic on kou and the mujin (1915). Although this survey was not comprehensive it did strongly suggest that kous and mujin were quite important in most parts of the country.

Further information on the importance of the kou was provided by a survey of tanomoshi-kou published in 1935. This survey was done by the Ministry of Agriculture through asking city, town, and village offices to report on tanomoshi-kou activity in their units. About 83 percent of these administrative offices reported the 1934's situation of tanomoshi-kou. From this survey, some interesting features of kou are shown in Table 2. As can be noted, there was at least one kou operating in almost 75 percent of the cities, towns, or villages. On the average there were about 40 kou in each unit with an average share value per individual subscription of 20 yen.

Another important point that can be noted in Table 2 is that the proportion of kous designed to help someone (called the parent) was higher in towns and villages than in cities, which suggests that kous for mutual help were quite important in rural areas. It can also be noted that the durations of kous were quite diversified, but judging from the fact that the proportion of kous with duration of more than one year was dominant showed kous were involved in fairly long-term finance. The fact that 90 percent of the kous were money-kou and only 10 percent involved goods showed the relatively high degree of monetization in Japan at the time, even in rural areas.

From this survey the Ministry of Agriculture estimated that there were about 350 thousand kous in the country, and that about 4.7 to 5 million people were members. Since this survey was done during the Great Depression and during a time of intense stress in the formal financial system, it may somewhat overstate the importance of informal finance in more normal times. Still, the numbers show widespread involvement by the Japanese in the kou. According to a Survey on

Farm Household Indebtedness done by the Ministry of Finance, the share of Kous in total farm household debts was about 8 percent in 1912 (Table 3). Later surveys by the Ministry of Agriculture showed the shares of kou in farm debt growing to 17 and 18 percent in 1935 and 1942, respectively.

Three other important kou features are shown in Tables 3 and 4. Table 3 shows the distributions of amount of debt and number of borrowers by sources, whereas Table 5 shows distribution by interest rate in 1912. First, the amount of debt from institutional sources for the average borrower was higher than from non-institutional sources. The average amount of debt from kous and other similar associations was only about 60 yen, which was about one-fourth of debt from formal sources. This shows that kous were handling relatively small loans and deposits.

Second, generally speaking, interest rates on kou loans were less than those charged by other informal lenders (money lenders, pawnshops and merchants), but higher than those of formal lenders. Third, unlike most formal lenders kous and other similar informal institutions in rural areas did not make use of mortgages in their lending. Instead the kou relied on mutual trust and informal sanctions to insure loan repayment.

No aggregate information is available on the uses that were made of loans from kou, but some indication of the use of funds can be drawn from the names applied to various kou (Table 5). Since almost every Kou has a name, such as horse-kou, savings-kou, etc., the name of the fund gives some hints about the motivations for people to participate. As can be seen in Table 5, kous were organized for a diversity of purposes, including most aspect of village life. Kous are formed not only for economic purpose, but also for recreation, religious, and social purposes. As Geertz described, and as has been found in other countries, the kou is more than a simple economic institution. "It is a mechanism for strengthening the over-all solidarity of the village." (Geertz, p.251).

Because of fungibility, it is always difficult to determine the precise use made of loans even when borrowers explicitly state their reasons for borrowing. Still, as is shown in Tables 2 and 5, it is likely that kous have provided funds mainly for long-term purposes and have had less to do with short-term financing or operating expenses. There may be several reasons for this. Originally kous were based on small geographic areas with most of the members living in the same village. As a result, their short-term and seasonal needs for funds were often similar. Thus, it is not possible for kous to adjudicate short-term demand and supply of funds in a small area. Also, institutional short-term loans were supplied in many regions by Industrial Associations, which were established in 1900. These loans, however, were mainly used by large farmers or landlords. In addition, it was possible for kous in Japan to have a long duration or cycle because there was relatively little inflation in the country from the Meiji Restoration to the late 1930s.

In the last several decades most kous in rural areas have disappeared. Prior to 1963 several farm surveys still showed some activities of kous in Okinawa, and in

mountainous villages of Nagano, Yamanashi, and Gifu. The importance of the kou diminished so much that the Japanese Farm Household Economy Surveys conducted after 1963 did not attempt to collect information on the kou.

Strengths and Weaknesses of Kous

Before discussing how kous relate to the development of modern financial institutions, it is useful to briefly summarize the strengths and weaknesses of the kou.

Around the turn of this Century some researchers and policy makers became concerned about the contribution of kous to development and how they related to modern financial arrangements then beginning to expand. Many researchers re-examined roles and problems of existing financial institutions and Government tried to grasp the real situation of finance by conducting various surveys. This stimulated a number of publications during this period on the mujin or tanomoshi-Kou that evaluated the reasons for their existence, their roles, and their strengths and weaknesses. A summary of the main arguments made for and against the kou in these publications is presented in Table 6. Three particularly important strengths of kou are cited in the Table: easy access for farmers, savings promotion, and relatively low interest rates.

Easy access for farmers came from the size (small) and location of kous (close to members). Also, members knew each other through tight social relationships and this made kous reliable and secure. These factors resulted in very low transaction costs for members and few loan defaults. Members generally made every possible effort to pay their subscriptions and some even went so far as to flee into the night if they were not able to meet their kou obligations. For people in rural area in these days it was virtually unthinkable to default intentionally.

As for promoting savings, it is clear that kous facilitated savings behavior. Further, the kou system was important in educating people to save by linking savings and borrowing. Many members participated in the kou and saved in order to have the opportunity to borrow sometime in the future should the need arise. Through this process, members learned the important lesson that deposits and loans are closely linked.

As was seen in Table 4, interest rates in kous were generally higher than those charged by institutional lender, but less than those charged by many other sources of informal loans. This relatively low rate of interest was supplemented by the low transaction costs borrowers and depositors incurred through membership in the kou. Interestingly, some Kous had rules that set interest rate ceilings or set maximum values on bids for the fund. These ceiling resulted from a feeling that extremely high interest rates would be destructive of group solidarity and that interest rates should be controlled by the community.

While kous have some obvious strengths, they also have obvious weaknesses. Their first weakness is size. Because of the small number of individuals involved and

the limited geographic area that a kou covers, each kou can plan only a very limited role in reallocating resources among surplus and deficit units in a society. Because of their size, kou cannot help in allocating resources more efficiently among villages or regions; only a formal financial system has this capability. Also, because of their small size, it is difficult for kous to provide the high degree of liquidity that many individuals desire for their savings. Finally, many people desire to keep most of their personal financial transactions private which is not possible in the kou. While kous certainly have some major advantages in early stages of development, the advantage shifts to formal forms of finance as an economy expands.

Formation of Mujin Companies

While the history of the kou is interesting to study, it is perhaps more important to understand how kous contributed to Japan's current financial system. I divide this contribution into urban and rural segments. In rural area kous facilitated the development of the highly successful farmers cooperatives that handle both deposits and loans for farmers (further discussed later). In urban areas the contribution occurred more directly in the form of mujin-companies which have evolved into modern financial institutions.

The mujin-companies currently found in Japan are direct decedents of earlier urban kou. They have provided financial services for small business under the name of Sogo Ginko (Mujin of Mutual Loans and Savings Banks), after the enactment of the Sogo Ginko Law in 1951. Some of these companies have been converted into regular banks.³ According to the Survey on Mujin in 1915, the first mujin-company was established in Tokyo in 1901 with capital of 10 thousand yen. By 1912, this company had grown to 27 branches with capital of a million yen. Stimulated by the success of this company, many similar institutions were rapidly formed with the number growing to 1,151 by 1913.⁴ Initially, mujin-companies appear to have grown out of arrangements where an individual was managing, on a commission basis, several mujin at one time. For obvious reasons, this tended to occur mostly in urban areas where it was possible to organize a number of kou in a relatively small area. One publication during the Edo period describes the selling and buying of kou accounts by these commission agents and also mentions one man who had 220 kou individual accounts of kous. Various reports suggest that mujin kou generally had more members than kou based solely in a single village. It appears that few of these mujin-companies were organized for the purpose of mutual help which was based on social relationships in villages, and, instead, these larger aggregations of kous into mujin-companies represented a transformation of kous into largely a financial institution. In the process of transformation, the biggest problem was how to

³At the end of 1985, the number of this kind of banks was 69, with 4,279 branches.

⁴According to the survey on mujin, one mujin-company had 17 rotating associations, with 800-900 total accounts.

determine creditworthiness of members and to establish some measure of mutual trust in the groups. Mori (1982) pointed out that initially, at least some finance-oriented kous had at least one member who was a rich merchant or landlord. Participation of wealthy and important persons was regarded as a way to enhance the creditability of the association. Also it should be noted that merchants and landlords had their own techniques for finance. Merchants accumulated such techniques through their commodity finance, while landlords acquired the way of securing their loans from their experiences of lending to tenant farmers. These traditional techniques were applied to mujin business. In some cases, these prominent persons received special privileges in the kou such as being the first person to receive the fund or receiving a commission. Later, many of these merchants became the organizers of mujin-companies and in effect guaranteed the payments of kou members who may, in fact, have little or no contact with each other.

Because ordinary people and small businesses had little access to formal finance prior to World War II these mujin-companies became popular places for poor people to get loans and make deposits.

In part the mujin-companies became popular because they offered clients advantages not found in common kous and in banks. The survey on mujin pointed out that if a member wanted to withdraw from a kou it was sometimes necessary for the individual to receive permission from all other members. Moreover, it was not rare for a kou to collapse because of the default of one member. Mujin-companies largely avoid these defects. Even when some members default other members can still get loans from the mujin-companies.

Early in their development some of the mujin-companies were not completely responsible. Some companies cheated the members, by secretly enrolling their staff members in the association. The staff was then scheduled to be the first receiver of the fund. Other companies suddenly broke up just after collecting the subscriptions from the first meeting. Initially there were few explicit legal sanctions on corrupted activities in mujin-companies. Still, the fact that this form of informal finance continued to grow strongly suggests that abuses were relatively rare.

To reduce the chances for abuse, in 1915 mujin-companies were institutionalized under the Mujin-Business Act. The main contents of the act were: 1) mujin-companies were required to obtain a license from the Minister of Finance; 2) minimum capital requirements were laid down for these companies; 3) the name of the companies should contain the term of mujin; 4) the companies were prohibited from having any side business; 5) the business area of one company was fixed; 6) the use of mujin fund was limited to loans to members, deposits in banks or post offices, and investments in securities; 7) employees of the company were prohibited from being members of kous administered by the company; 8) companies were required to file regular reports with the Ministry; and, 9) government audits were imposed on the companies. In short, the companies were regulated and thus became part of the formal financial system and the highly personalized features of the traditional kou

largely evaporated in these urban mujin. Mutual help was no longer a feature of the mujin.

With the Act, many traders rushed to be registered (Table 7), and about 300 of them formally applied for licenses. Of these applicants only 158 received licenses and the remaining operators of mujin-companies had to liquidate their kou activities.

Kous and Rural Credit Associations

Kous strongly influenced the formation of associations that handled these activities. But, unlike the direct evolution of urban kous into mujin, the influence of the rural kous was more subtle and less direct. At first glance, one might conclude that the rural kou simply disappeared and was replaced by a modern financial institution in the form of credit cooperatives. A bit of background is necessary to clarify this point.

Prior to the 1940s Japan had three types of institutions providing financial services in rural areas: Private banks, specialized financial institutions (Japan Hypothec Bank, Agricultural and Industrial Banks, and the Hokkaido Colonial Bank), and credit associations.

The specialize institutions--mostly established in the 1890s--provided mainly medium-to-long term loans on mortgaged collateral. They received many forms of privileges from the government and their businesses were under closely regulated. By and large, tenants and small farmers were unable to borrow loans from these special banks. Therefore, as shown in Table 3, they had to use loans of non-institutional lenders.

After a long discussion in the National Diet, the Industrial Association Law was enacted in 1900 that led to the formation of industrial associations, the majority of which was credit associations in rural areas. These associations embodied much of the traditional spirit of mutual help found in the traditional kou which was also summarized in the philosophy of Ninomiya Sontoku (Ishiguro).⁵ Widespread and long-term participation in kous had schooled rural people in the value of group activities, cooperation, the benefits of saving, and the need to repay loans long before this legislation was enacted (Yokoi, 1909).⁶ Through widespread participation in kous,

⁵It is interesting to note that the formation of credit associations in Japan was heavily influenced by the earlier German experience with Raiffeisen Cooperatives.

⁶Kato (1985) and Saito (1973) make an interesting observations about the role of landlords in this process. They point out that the local landlord was a major factor in helping to set up and manage many of these credit associations. Unlike the experience in many other low income countries, however, the landlords did not hog most of the loans. This may have been due to the fact that interest rates on loans were not concessionary and most of the funds lent were from local deposits rather

most of the rural people in Japan had learned the discipline that is a prerequisite for successful financial intermediation; the formal cooperative structure simply gave them an opportunity to exercise that discipline in a broader institutional framework.

The performance of these credit associations has been truly remarkable. Over the period of 1905 to 1925 the number of credit cooperatives in the country jumped from only about 600 to over 12,000 (Table 8). Over time, most farmers in Japan joined these associations and the deposit and loan activities became the economic foundation of these associations. Other figures on performances of credit associations also show the success of these associations.⁷

Currently, agricultural cooperatives in Japan, which had developed from credit associations after the War, have been quite successful in providing financial services to farmers, as well as other related activities. The Norinchukin Bank, the apex bank of agricultural cooperatives in Japan, had grown to be one of the largest banks in the world.

Conclusions

The history of informal finance in Japan is long and rich in detail. While the kou has largely disappeared from the hustle and bustle of current-day Japan, its influence can still be found in the genes of some of its offspring: the mujin-companies and the agricultural cooperatives as descendent of credit associations. The discipline involved in saving, repaying loans, and making loans on the basis of creditworthiness trace many of its roots to the kou heritage.

The most important feature of the Japanese experience with the kou is how it influenced formal financial institutions that evolved to provide services for the common person. The financial services provided by the Credit Associations and the mujin-companies were logical extensions of the kou, build on its strengths, and were seen as indigenous rather than alien institutions by common people. In addition, in no point in its history did the Japanese government try to destroy the informal financial system or to create an economic environment in which it could not easily operate and evolve. As far as initial stages of development is concerned, excessive regulation, especially in the form of low interest rates, was never one of the major policy instruments exercised in Japan.

What lesson might be drawn from the Japanese experience with kou that would be timely for policy makers in low income countries and employees of donor agencies? Perhaps governments and donors ought to take a more careful look at the existing system of informal finance and attempt to build on that system, rather than trying to introduce substitute for it.

than government funds.

⁷It should be noted that during the period from 1905 to 1925, interest rates in credit associations was not regulated by government, which seems to be one factor in their success.

Table 1. Example of the Pattern of Receipts and Payments of Kou in the 18th Century
(unit: monme, 3.75 g of silver)¹

No. of meeting	Price of bidding (discounted value)	Subscription of first receiver	Subscription of other members ²	Total	Ratio of total payments to total receipts ³
1	-	-	100 x10	1,000	1.073
2	190	110	77.8x 9	1,000	1.536
3	199.8	110	130x1 + 70 x 8	1,000	1.490
4	160	110	130x2 + 67.1x 7	1,000	1.348
5	143.5	110	130x3 + 59.4x 6	1,000	1.248
6	128.3	110	130x4 + 48.3x 5	1,000	1.145
7	86	110	130x5 + 38.5x 4	1,000	1.003
8	0	110	130x6 + 36.7x 3	1,000	0.783
9	0	110	130x7 - 5x 4	1,000	0.691
10	0	110	130x8 - 37.5x 4	1,000	0.578
11	0	110-27.5	130x9 - 27.5x10	1,000	0.466

Source: A. Fukuyama [1975] p.100

Note: ¹This association started in 1721 and ended in 1732. Meetings were held yearly, except for the last meeting.

²The association was instituted in one village near Osaka, to help one farmer who was to be the first receiver, but from the second meeting, rotation was determined by bidding. The amount of fund for each meeting was fixed at 1,000 units of money, but if a bidder offered a positive amount of discounting, then subscriptions for members who had not received the fund, would become smaller. For members who already received the fund, subscriptions were fixed, i.e., 110 for first receiver, and 130 for other members. In this associations, from the 8th meeting, the remaining members who haven't received funds, didn't call for bids, then the receiver was determined by lot. From the 9th meeting, the total amount of subscriptions of the first receiver and seven other members had become over 1,000, then a new distribution method was adopted. The last four members received 5 units of money at the 9th round, and 37.5 in 10th meeting. At the final meeting, a surplus over 1,000 was distributed equally by all members including the first receiver.

³The last column of the table, shows the ratio of total amount of payment to receipt for the receiver at due meeting.

Table 2. Figures on Japanese Kous in 1934

	Urban (city)		Rural (town and village)		Total		
Number of Kou	13,320		285,774		299,094		
Number of Kou per one unit of administration	162		40		41		
Number of accounts per one Kou	N.A.		N.A.		27.4		
Share of Kou with parents (%)	35.7		67.7		66.3		
Average value of fund for one Kou	N.A.		N.A.		427 yen		
Average value of subscription for one account	N.A.		N.A.		20 yen		
Distribution of number of town and village by number of Kou (%)	<u>0</u>	<u>1-9</u>	<u>10-19</u>	<u>20-49</u>	<u>50-99</u>	<u>100-</u>	<u>total</u>
	4.9	21.0	14.7	21.5	11.5	6.4	100
Distribution of number of by duration (5)	<u>-5 year</u>	<u>5-15</u>	<u>15-30</u>	<u>30 year-</u>	<u>tot</u>		
	23.0	57.5	17.9	1.6	100		
Share of money-Kou (%)	<u>money</u>	<u>cereal</u>		<u>others</u>	<u>total</u>		
	93.5	6.3		0.2	100		

Source: Survey on Tanomoshi-Kou, Ministry of Agriculture, 1935.

Table 3. Sources of Farm Household Debt in 1912

Source	Estimated Value of Debt (1,000 yen)	Estimated Number of Borrowers (1,000)	Debt per one Borrower (yen)
Institutional sources	230,423 (30.9)	945 (12.1)	243.8
Special financial instit. (1)	76,601 (10.3)	89 (1.1)	860.7
Other banks	131,363 (17.6)	495 (6.4)	265.4
Insurance companies	638 (0.9)	3 (0.0)	212.7
Industrial associations, etc. (2)	21,821 (2.9)	358 (4.6)	61.0
Non-institutional sources	517,606 (69.1)	6,843 (87.7)	75.6
Money lenders	151,145 (20.3)	1,300 (16.7)	116.3
Pawnshops	9,831 (1.3)	1,048 (13.5)	9.4
Merchants	12,326 (1.7)	284 (3.6)	43.4
Kou and similar associations	62,910 (8.4)	1,050 (13.5)	59.9
Relatives, friends, etc.	269,934 (35.9)	2,925 (37.5)	92.3
Other non-insti. sources	11,910 (1.6)	236 (3.0)	50.5
Total	746,033(100.0)	7,790(100.0)	95.8

Source: Survey on Farm Household Indebtedness, Ministry of Finance, 1912.

- Note: (1) Special financial institutions are government-subsidized banks mainly for agriculture, i.e., Japan Hypothec Bank, Agricultural and Industrial Bank, and Hokkaido Colonial Bank.
- (2) Industrial associations were cooperative type institutions for mutual finance, including credit associations, established in 1900.
- (3) Actual survey was done from 1910 to 1912, by various institutions.
- (4) In brackets are percentage distributions.
- (5) This survey didn't have the item of debts from landlords. Their roles had been quite significant until the end of World War II.

Table 4. Sources of Farm Household Debt by Interest Rate in 1912 (unit; %)

Source	Interest Rate				Total	Share of no. mortgage loan
	-10%	10-15%	15-20%	20%-		
Institutional sources	63.9	33.5	2.2	0.3	100.0	27.5
Special financial instit. (1)	89.7	10.2	0.1	0.0	100.0	17.1
Other banks	51.7	44.9	3.2	0.2	100.0	26.1
Insurance companies	84.5	15.2	0.0	0.4	100.0	59.2
Industrial associ., etc. (2)	46.3	47.3	4.4	1.9	100.0	71.8
Non-institutional sources	22.4	50.0	21.5	6.1	100.0	43.6
Money lenders	13.4	54.0	26.8	5.9	100.0	24.0
Pawnshops	4.0	11.3	23.2	61.5	100.0	0.0
Merchants	27.3	52.2	15.1	5.4	100.0	100.0
Kou and similar instit.	56.0	32.4	8.4	3.2	100.0	100.0
Relatives, friends, etc.	19.1	53.5	22.4	5.1	100.0	40.2
Other non-insti. sources	42.0	41.5	11.7	4.8	100.0	47.7
Total	35.2	44.9	15.6	4.3	100.0	38.7

Source: Survey on Farm Household Indebtedness, Ministry of Finance, 1912.

Note: (1) Percentage distributions are shares in total value of debts from each source.

(2) Same as the note in Table 4.

Table 5. Classifications of Kou and Correspondent Names of Kou

Criterion	Function	Name of Kou
for help or not	for help	Oya Kou (association with parent)
	not for help	Oya nashi Kou (association without parent)
By purpose	Help, or aid	Insurance-Kou, Mutual-Help-Kou, Relief-Kou Charity-Kou
	Savings	Savings-Kou, Installment-Savings-Kou
	Finance	Finance-Kou
	Purchase of goods	Bedding-Kou, Roof-Kou, House-Kou Tatami-mat-Kou, Tile-Kou, Shoes-Kou Umbrella-Kou, Horse-Kou, Bull-Kou
	Public interest	Public-interest-Kou
	for friendship or solidarity	same-age-Kou, women's-kou, same area-kou, Fuji-kou (Fuji is famous mountain)
	Religion	Ise-Kou (Ise is a famous shrine), Kannon-Kou (Kannon is Goddess of Mercy in Buddhism)
money or in kind	money	Money-Kou
	in kind	Rice-Kou
Quantity or value of subscription		10-yen-Kou, 20-yen-Kou, 200-yen-Kou 20-Koku-Kou (Koku=150kg of rice)
Others		10th day-Kou, 20th day-Kou, monthly-Kou, yearly-Kou, Yamamoto-Kou (Yamamoto is a name of organizer) Sendai-Kou (Sendai is a name of one area)

Sources: J.S. Embree [1939], Survey on Mujin [1915], and T. Tsuda [1916].

Table 6. Strengths and Weaknesses of Kou

Strengths	<ol style="list-style-type: none"> 1) Everybody knows what a kou is because of its long history and popularity 2) It is easy to organize kou 3) It is easy for ordinary people to participate 4) It encourages savings 5) Interest rates are lower than those of pawnshops and money lenders 6) Can borrow fairly long-term loans with amortization repayment 7) Generally borrowers need not offer any mortgage 8) Makes good use of mutual help spirit 9) In case of kou, debts are not a shame for fund-receiver 10) To stimulate speculative spirits 11) There are opportunities for all participants to get loans
<hr/>	
Weaknesses	<ol style="list-style-type: none"> 1) Easy to organize Kou, but this sometimes makes Kou's vulnerable in times of economic depression 2) Levels of interest rates vary widely, depending on bidding 3) Rates of interest sometimes high, especially when bidding is competitive 4) Not always able to receive fund at the time of need 5) Legal relationships are not well established, and in case of dispute among participants, it is very difficult to solve 6) Sometimes organizer swindles others 7) Unexpected receiver of funds may waste the money 8) In the complicated forms of kou, it is difficult for members to calculate interest rates

Source: Survey on Mujin [1915], R. Ikeda [1918], T. Yui [1935].

Table 7. Changes in Mujin-Business, 1914-1925

	1914 (T.3)	1915 (T.4)	1916 (T.5)	1920 (T.9)	1925 (T.14)
Number of Mujin-companies	830	2,363	136	203	240
Number of Branches	-	-	60	60	87
Number of Accounts (1,000 unit)	-	-	235	717	1,045
Value of Total Payment (million yen)	138	-	42	197	616

Source: Survey on Mujin [1915], Statistical Yearbook of Sogo Ginkou [1959].

- Note: 1) Figures in 1914 and 1915 were those before the Mujin-Business Act in 1915.
- 2) According to a survey on Mujin, there were 830 Mujin-Businesses, and 14,346 associations in 1914. Therefore, one Mujin-business had 17 associations on average. In these days, one association usually had 40 to 60 accounts. Assuming the number of accounts for each association averaged 50, then in 1925, Mujin-company had about 87 associations, which was 5 times the number in 1914.

Table 8. Performances of Credit Association and Interest Rates

	1905	1915	1925
Number of credit associations	610	9,040	12,016
Outstanding loans in real terms per one association (1,000 yen)	2.5	5.5	29.1
Profits per one association (1,000 yen)	-	311.7	1,458.6
Share of Savings in total fund (%)	21.1	41.2	71.4
Interest Rates on Deposit (ordinary deposit) (%)	6.1	5.8	6.4
Inflation rates (%)	3.9	6.4	1.2

Source: Izumida and Yurugi

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