ASIAN CREDIT UNION FORUM 2022

Greener, Inclusive, Resilient Path to COVID-19 Recovery

August 29 - September 1, 2022 - Thailand

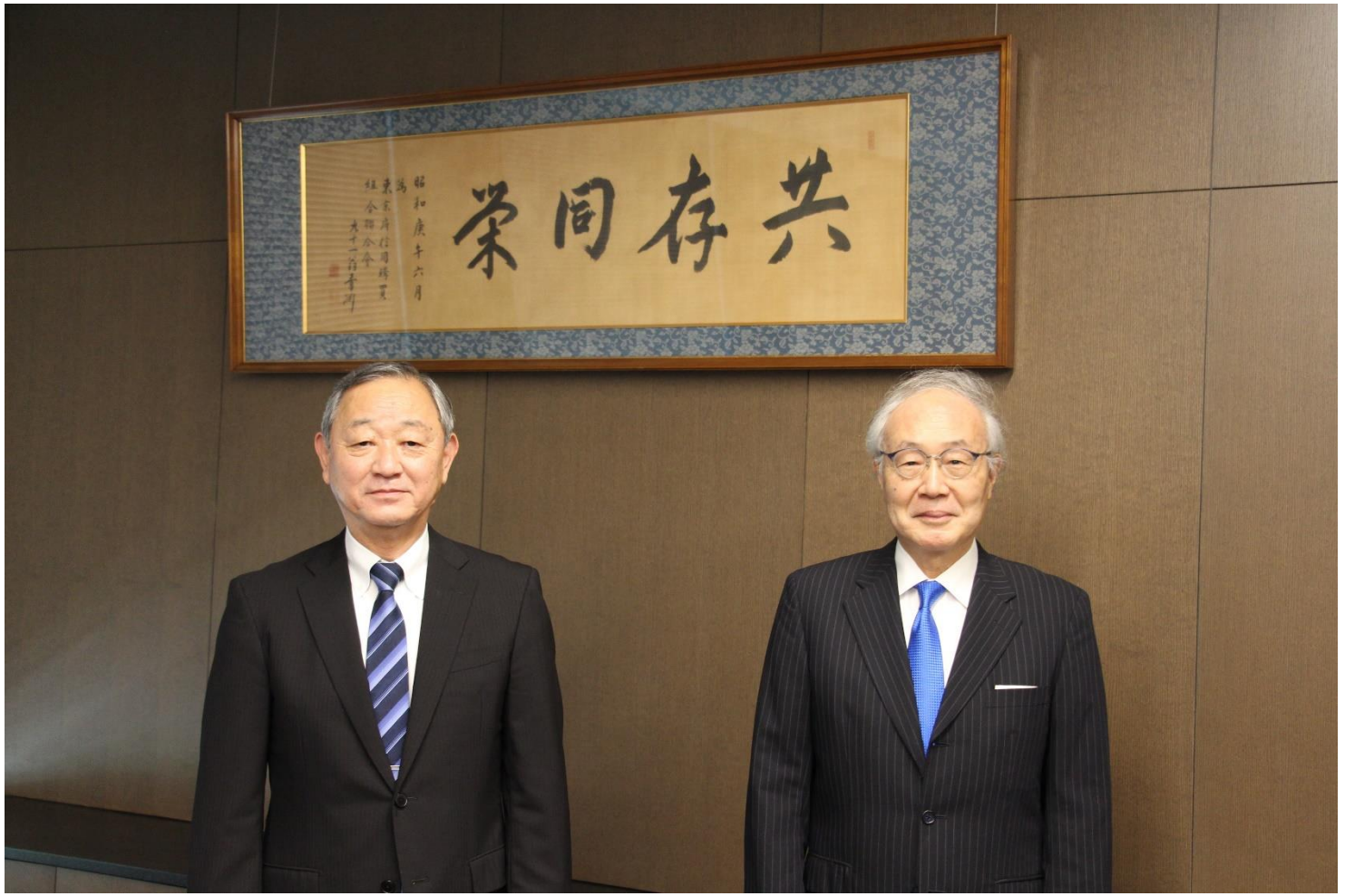
Plenary 7 **Proactive Management of the Credit Unions Responding to the Challenges of the new Social Order**

Structural Changes before and after the Japanese Financial Crisis in 1990s and Proactive Management of Credit Cooperatives: Shinkumi Banks in Japan

President and CEO Dr. Junichi Naito

Shinkumi Banks Association of Japan and The Shinkumi Federation Bank

“Coexistence and Co-prosperity” Written by Shibusawa Eiichi in 1930



Mr. Shoji Yanagisawa
Chairperson of SBAJ

Dr. Junichi Naito
President and CEO
SBAJ and the SFB

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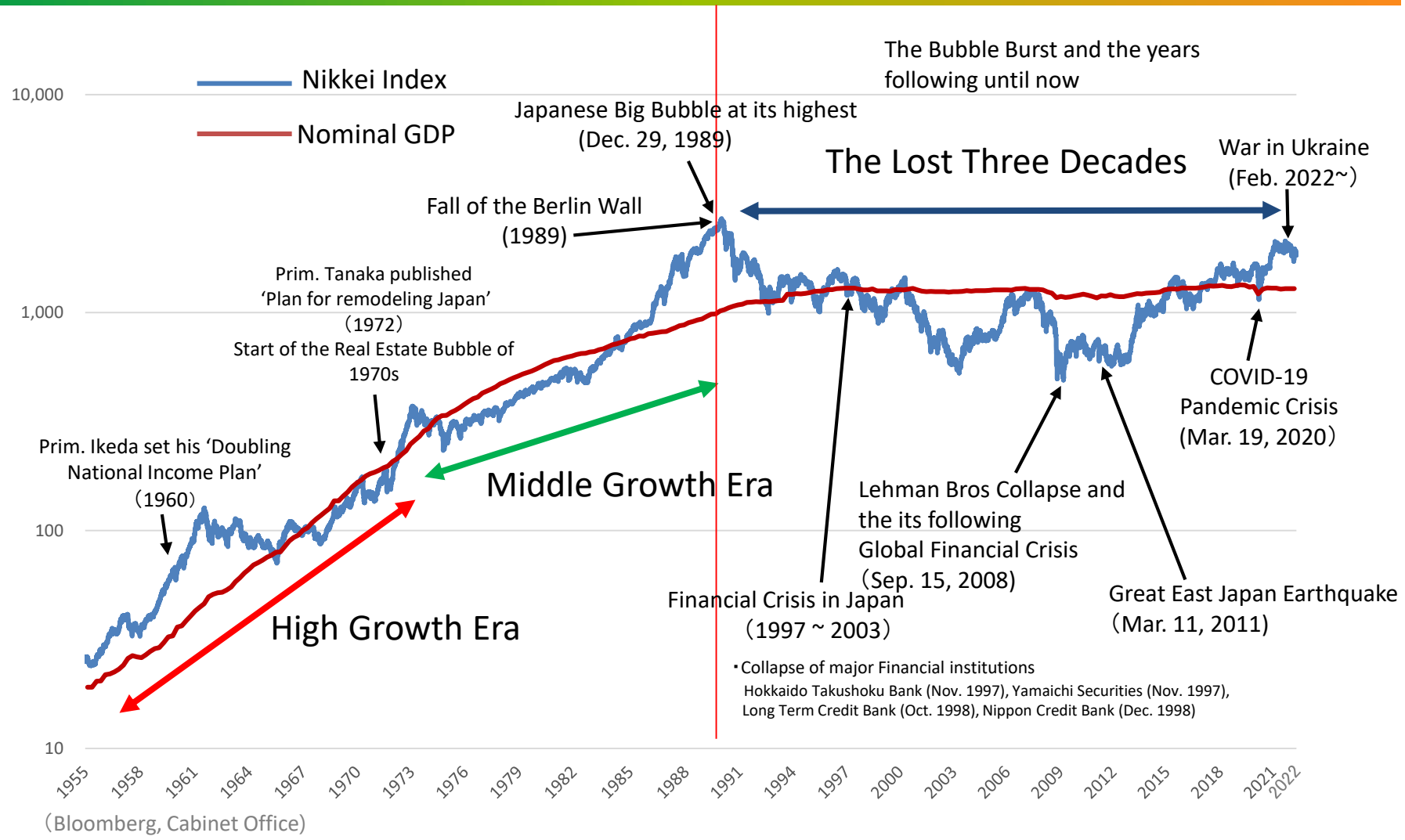
1. The Changes of Japanese Economic Growth and of Shinkumi Banks (Japanese Credit Cooperatives)

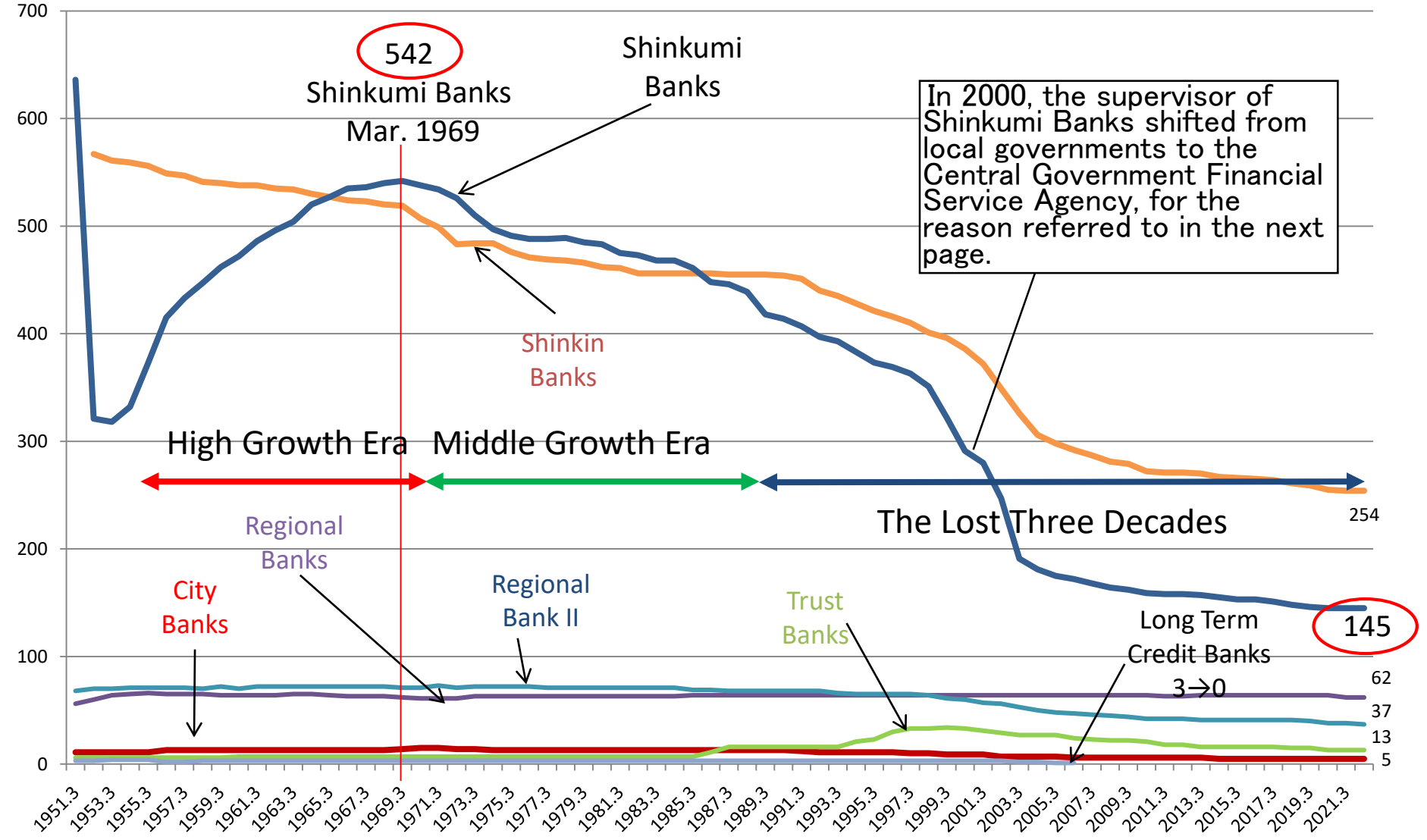
1-1. Nikkei 225 Index: Tokyo Stock Exchange Market and Nominal GDP Change since 1955

(Jan. 1967=100)



(Bloomberg, Cabinet Office)

1-2. Number of Financial Institutions in the post war period of Japan



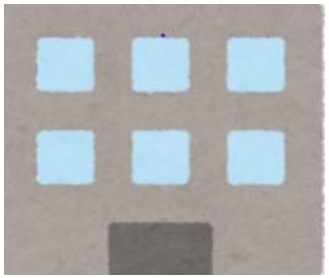
Ministry of Finance, the Shinkumi Federation Bank

2. Balancing both functions of 'Cooperative' and 'Financial Institution'

2-1. Shinkumi Bank: its functions of both 'Cooperativeness' & 'Financial Institution'

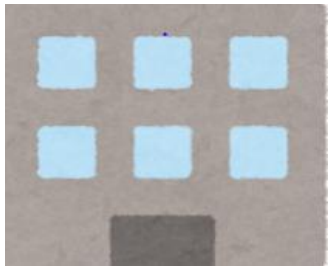
Shinkumi Bank
Cooperative Financial
Institution

Function of 'Cooperative'



- An organization that consists of regional, occupational and workplace community members.
- It is based on mutual aid among its members.
- The governance of the organization has a one-vote principle for each member.

Function of 'Financial Institution'



- After the financial crisis in Japan in the latter half of the 1990s, pursuing the soundness of financial institutions, including Shinkumi Banks, has become the most important issue for stabilizing the financial system.

- Capital ratio regulations and disclosure requirements of financial institutions' business are consistent with the Basel regulations, as well as those introduced by advanced countries' banking system.

2-2. A proper balance between both functions of ‘Cooperative’ and ‘Financial Institution’

- While Shinkumi Banks are based on mutual assistance among cooperative members, they also need to keep their own financial soundness by earning moderate business profits in order to realize their business sustainability. This is also indispensable in satisfying the interests of all cooperative members.
- According to our experiences in the 1990s’ Japanese financial crisis, such financial soundness has been proved to greatly contribute to the stabilization of the macro financial system.
- Therefore, the function of ‘financial institution’ is seen to be as important as the function of ‘cooperative organization’.
  As a result, it is very significant to make efforts to find the best balance of both functions under any circumstances.

Shinkumi Banks Association of Japan (SBAJ),established in 1959,is Shinkumi Banks’ business industrial central organization and the Shinkumi Federation Bank (SFB),established in 1954, is a central bank for all of Shinkumi Banks provided by the law.
Therefore both organizations are in a position to support such individual Shinkumi Banks.

3. The Challenge of Shinkumi Banks under the COVID-19 Pandemic

3-1. Japanese Government Budget FY2020~2022

[FY2020: April 2020～March 2021]

	Gov. Budget
Main Budget (Mar. 2020)	102.6Tril Yen
First Supplementary Budget, etc. (Apr. 2020)	25.6Tril Yen
Second Supplementary Budget, etc. (May. 2020)	31.8Tril Yen
Third Supplementary Budget, etc. (Dec. 2020)	15.4Tril Yen

175.4Tril Yen※
(33% of GDP)

※The amount is the simple gross of the Main Budget and the Supplementary Budgets

[FY2021: April 2021～March 2022]

Main Budget (Mar. 2021)	106.6Tril Yen
Supplementary Budget (Dec. 2021)	36.0Tril Yen

142.6Tril Yen※
(26% of GDP)

[FY2022: April 2022～March 2023]

※as the above

Main Budget (Mar. 2022)	107.6Tril Yen
Supplementary Budget (May. 2022)	2.7Tril Yen

110.3Tril Yen※
(20% of GDP)

※as the above

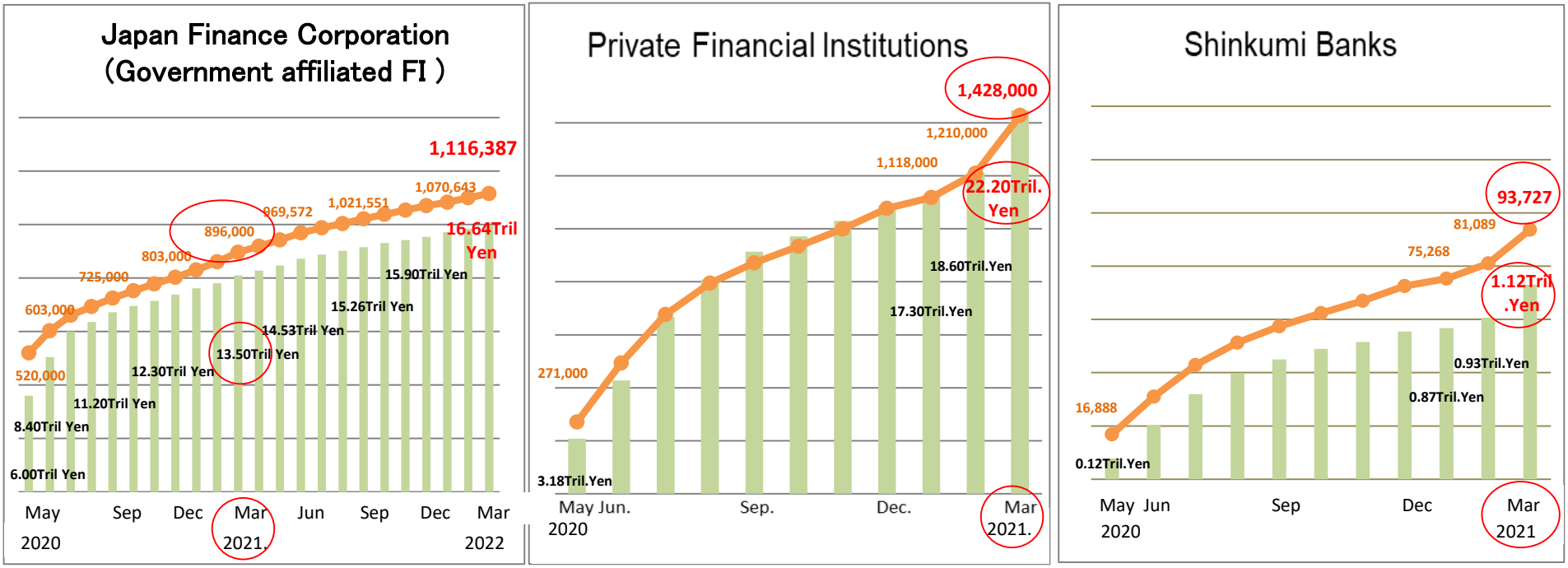
(Ministry of Finance, Cabinet Office, Ministry of Economy, Trade and Industry, BOJ, IMF)

3-2. Effectively Interest-free Loans and Governmentally Guaranteed Loans

To cope with lack of SME liquidity in the first stage of the COVID-19 pandemic since March 2020

Shinkumi Bank 信用組合 しんくみ

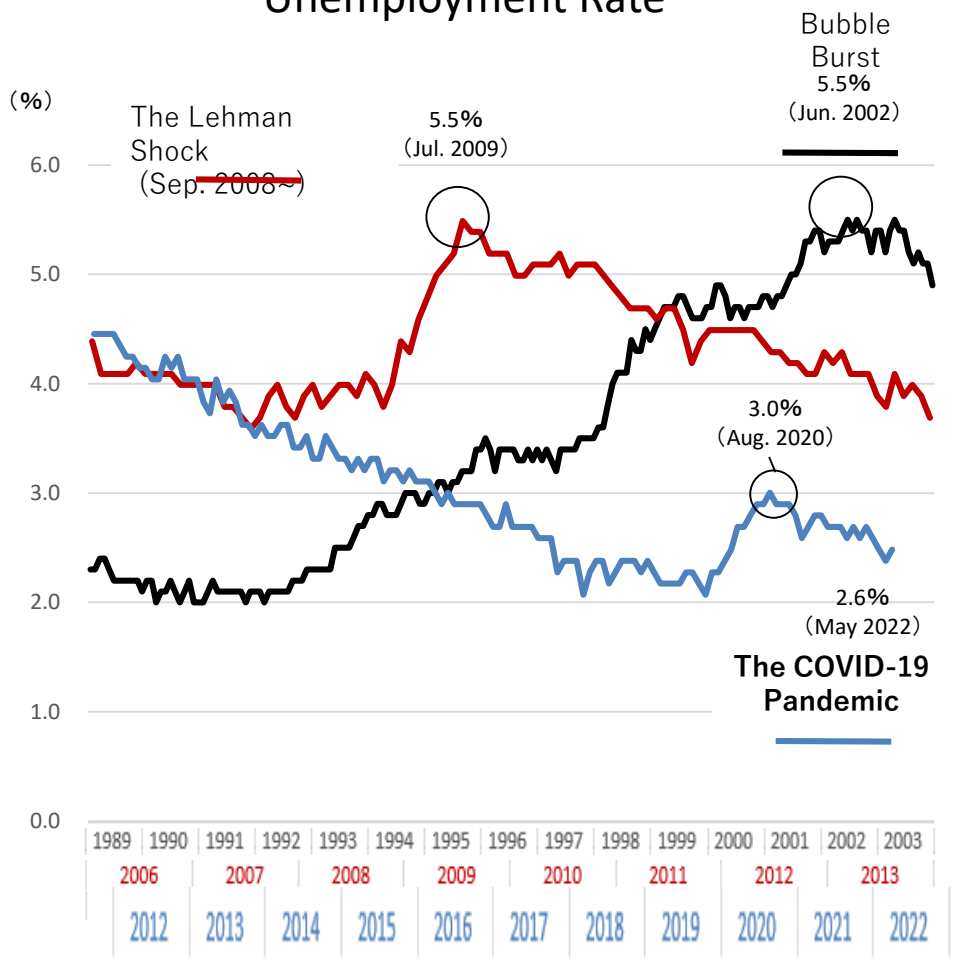
Number and Amount of Loan Approvals (as of March 2022)



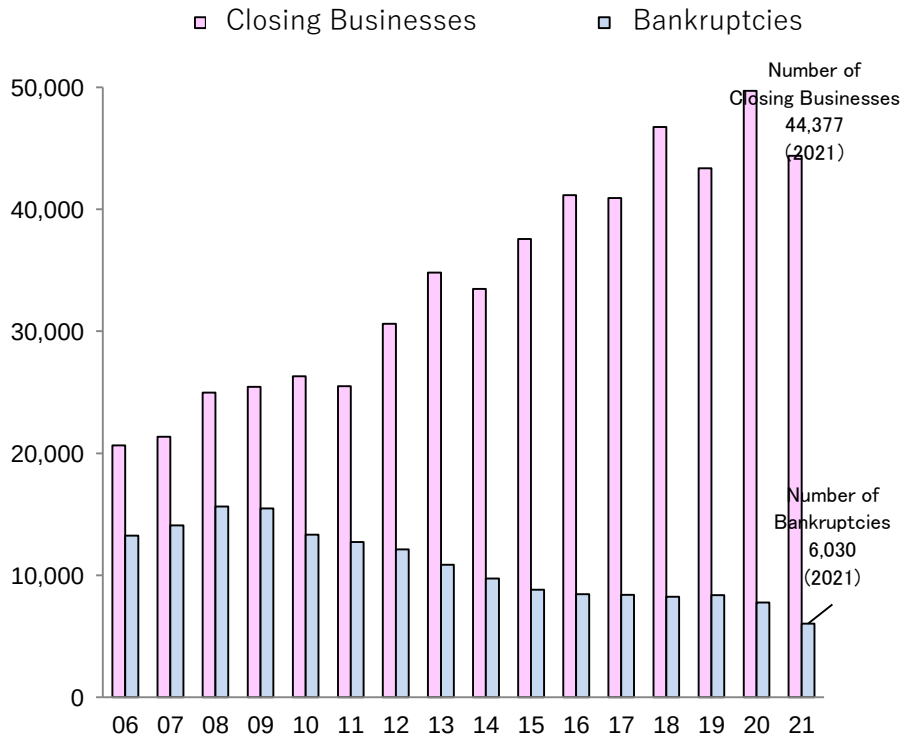
* Japanese Finance Corporation and private financial institutions are based on hearings with the Small and Medium Enterprise Agency

3-3. Unemployment Rate, Corporate Bankruptcies and Closing Businesses

Unemployment Rate



Number of Corporate Bankruptcies and Closing businesses

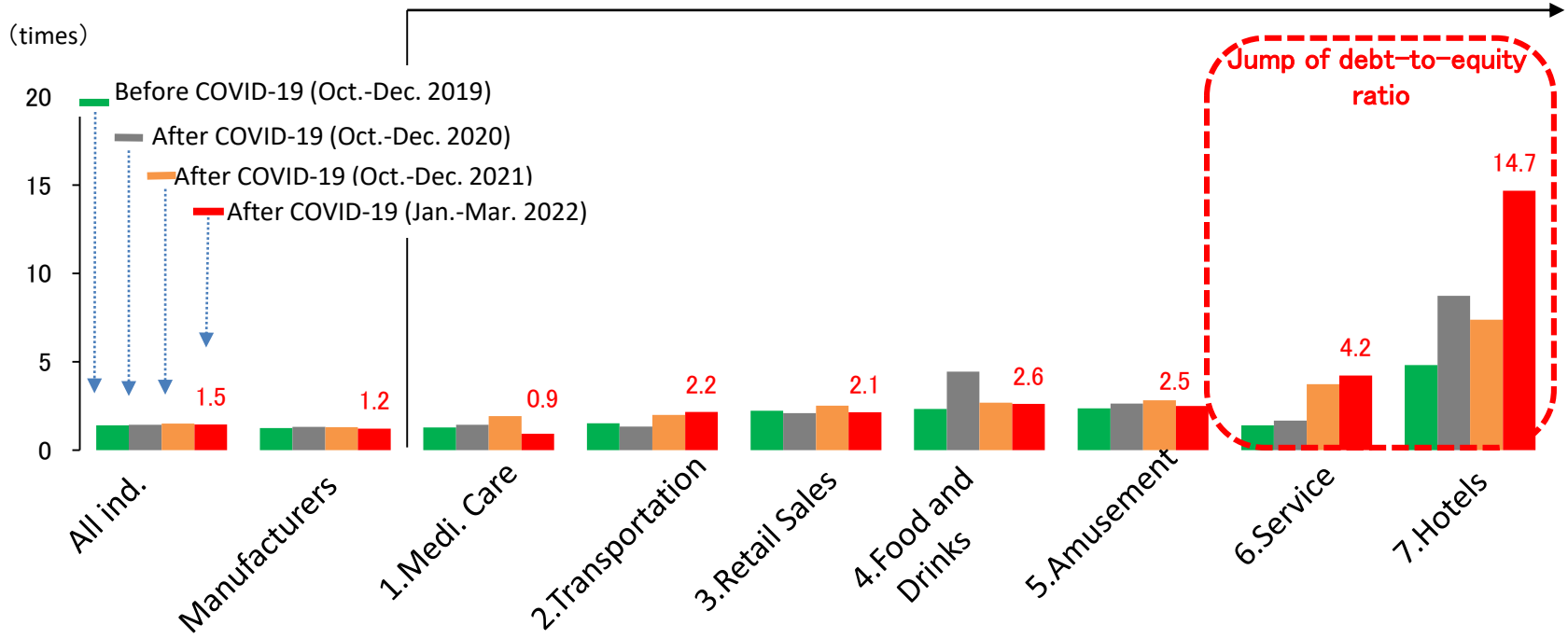


(Source: Ministry of Internal Affairs and Communication, Ministry of Health, Labor and Welfare)

3-4. The Most Serious Ongoing SME Business Management issues

SME debt-to-equity ratio

Seven face-to-face industries suffering serious negative impacts from the COVID-19 pandemic below have resulted in a significantly high level of debt-to-equity ratio

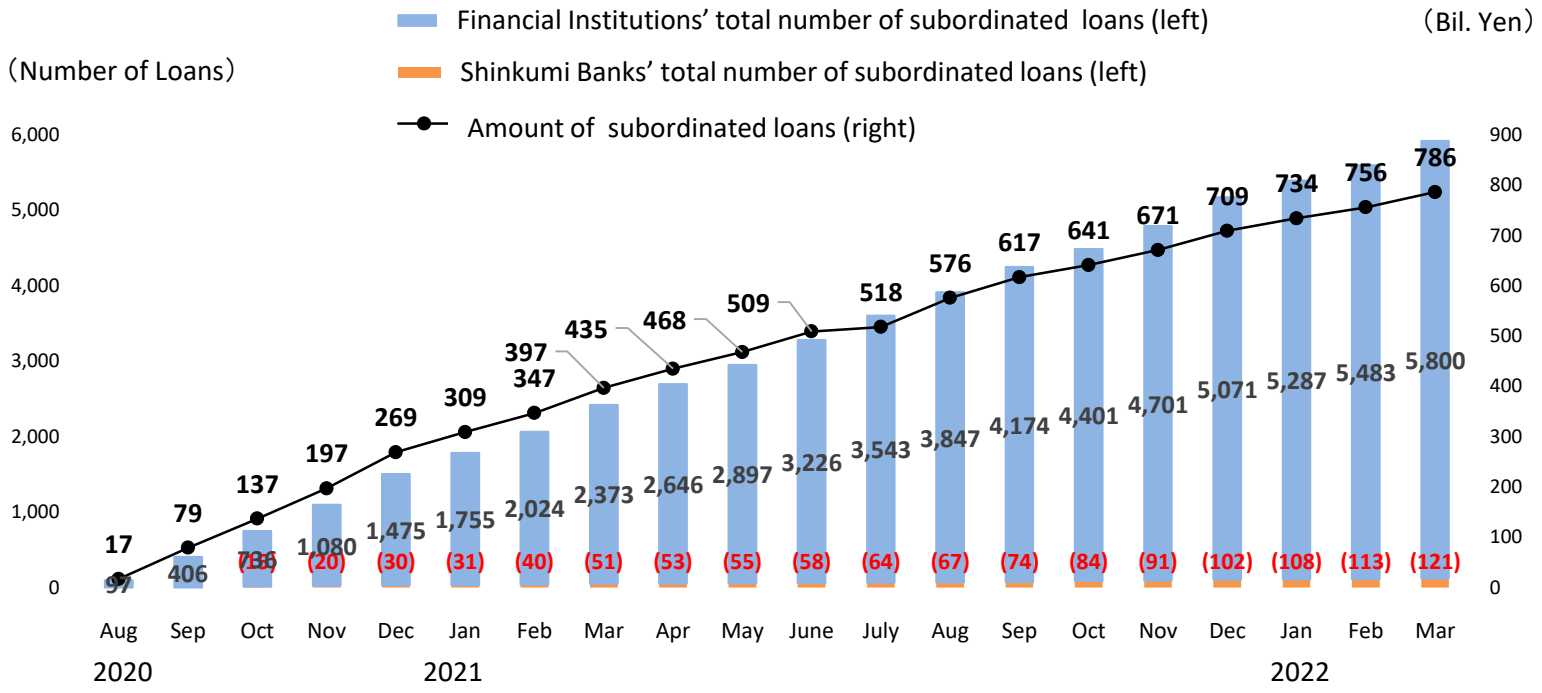


(SFB using the Date from Ministry of Finance)

3-5. Cooperation with Japan Finance Corp. (JFC)

A current liquidity problem will turn to a solvency problem in the near future

- JFC prepares specific financial facilities to provide subordinated loans, as a new capital reinforcement measure.
- The Shinkumi Federation Bank (the SFB) and a number of Shinkumi Banks actively make use of such facilities to reinforce SMEs' capital



4. The Next Stage

○ Each Shinkumi Bank needs to maintain its own financial soundness to appropriately support its own members

– Also, a Shinkumi Bank needs to monitor closely the member borrowers, to provide proper advice and to support for their business

○ To execute such tasks:

–The SFB as well as the Shinkumi Banks make use of their own business networks to support SME activities as far as possible.

–The SFB provides such supporting activities as:

- member producers sales channeling
- advising SMEs' management to mobilize retired mentors
- supplying regional revitalization funds to local enterprises
- other

Apart from the SFB's conventional activities, such as fund management of Shinkumi Banks deposits, IT network management for Shinkumi Banks, and so on, the above fields of activities are becoming more and more important for the SFB.

–In order to fulfill such tasks, the SFB must continue to make great effort monitor closely Shinkumi Banks' management and to enhance the quality of the SFB staff.

Support for Shinkumi Banks' members, especially SMEs

- Operation of crowdfunding site - Supporting the expansion of sales channels for members.

"Shinkumi COVID-19 Support Project-We Start Walking Together-"
Special page URL: https://mottainai-motto.jp/covid19-shinkumi

- Holding of Shinkumi Food Business Matching Exhibition - Create chances for SMEs running "local food" businesses to meet buyers and provide opportunities to support expansion of sales channels.
- Supporting the matching of SMEs and retired mentors - Provide opportunities (individual interviews) to meet SMEs that are business partners of Shinkumi Banks with retired people who have experience in large companies.
- Supplying Regional Revitalization Funds - Designed to meet the financial needs of Shinkumi Banks' members who are starting businesses and reviving businesses.

Support as a Central Bank of Shinkumi Banks

- Supporting the capital increase of Shinkumi Banks which are in financial difficulty, and providing guidance and advice through the monitoring of their management. In addition, we dispatch human resources as needed to support management improvements.
- Collect surplus funds for the industry through deposits from Shinkumi Banks and efficiently manage them as a major institutional investor in the securities market.
- Development and operation of IT system infrastructure in the industry to meet diverse needs.

Appendix II. Shinkumi Banks Official YouTube Channel

https://www.youtube.com/channel/UClZkVZpwkcN6tjpiHsOmDCg

Shinkumi Bank 信用組合 しんくみ YouTube にて 動画配信中

SBAJ and the SFB set up the Shinkumi BK YouTube Channel where people can watch a variety of Shinkumi short movies. These movies introduce Shinkumi Banks (Japanese Credit Cooperatives) and their activities.

PLAYLIST

◆ Shinkumi Banks Projects for ACCU (English) – SBAJ became a regular member of ACCU, the Asian Confederation of Credit Unions, in 2020. We will share the experience and knowledge cultivated by Japan's credit cooperative industry with the other Asian member countries, thereby contributing to the development of financial systems in Asia.

◆ Shinkumi documentaries (Japanese) – These short movies will introduce the philosophy of "Shinkumi" and the passion of business owners and businesses.

We plan to post new introduction videos of Shinkumi Banks and educational videos on finance and the economy. These videos are in Japanese, but you can watch them using the **YouTube translation function**.

***** Please watch the videos and subscribe to the channel. *****