

Unit 3-6: The support system for agricultural entrepreneurs: an overview of structure and function

Chapter 1 Introduction

In late years, rural farming community has been re-evaluated that its fertile natural environment and lifestyle are irreplaceable, and accordingly, interchanges between urban and rural communities have become activated. Under these circumstances, new businesses such as direct sales of agricultural products, restaurants that serve local products, and agricultural food processing are actively pursued and flourished.

On the other hand, while ageing and generation changes of farmers are proceeding, the total abandoned farmland or pasture accumulated to 3.8 billion ha in entire Japan. To reduce the abandoned land from the viewpoint to revitalize rural communities and utilize the farmland effectively, it is encouraged and promoted for highly motivated corporations and young people to newly enter into agri-business from outside of the agricultural sector.

In this unit, current situations of these various aspects of entrepreneurial activity and forming incorporation, and supporting measures to them are explained in detail.

Chapter 2 The present status of agricultural enterprises

2.1 Enterprises and role of women in rural community

There is a plenty of possible resources (human resources, farmland, water, landscapes, etc.) when utilized efficiently in agriculture and rural community engaged in agriculture. Groups of agricultural producers and women are increasing in numbers yearly who are eagerly trying to increase the income of farmers, communicate the positive aspects of rural communities with people outside, obtain mutual understandings and enhance their credibility, and revitalize the regions by utilizing these resources.

These entrepreneurial efforts in rural communities are varied mainly from direct sales of agricultural products, processing of agricultural products, farmer's restaurant to direct communication with consumers through tasting local cuisines and experiencing harvest.

In this background, entrepreneurial activities which initiative are taken by women are growing year after year, and this brought not only the advancement of economical status of women, multilateralization and stabilization of agricultural management but also further involvement of women in management and women's participation in the working world.

2.1.1 Entrepreneurial activity field by women

Entrepreneurial activity field by women in rural communities are broadly divided to:

- (1) Agricultural production: Management directly connected to agricultural production (Selection of cultivated items which women take responsibilities: vegetables, fruit trees and rice, etc.)
- (2) Food processing: Food processing utilizing the products originated from agricultural, forestry, stockbreeding and fishery (Jam, pickles, Japanese confectionary, baking bread, etc.)
- (3) Processing products other than food: Processing products originated from agricultural, forestry, stockbreeding and fishery other than food (Dried flowers, flower arrangement, etc).
- (4) Distribution and sales: Distribution and sales of products originated from agriculture, forestry, stockbreeding and fishery through early-morning market, etc. (Early-morning market, direct sales stores, door-to-door delivery service of local products, etc).
- (5) Interchanges with urban communities: Green tourism, management of farm restaurants (Interchanges with urban communities utilizing the characteristics of agriculture and agricultural communities; management of agriculture-experience farm, ranch for sightseeing, management of guesthouse where provides agriculture, forestry and fishery services, etc.).
- (6) Community-related services: Community-related services such as caring of the elderly, nurturing, etc. (Establishment and management of season child-care center, publishing of information magazine, meal delivery service, day service, etc.)
- (7) Others.

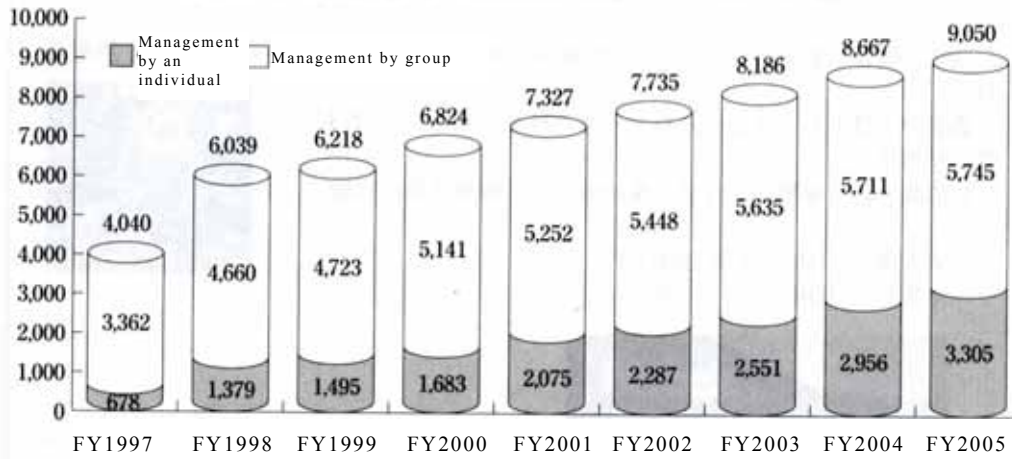
2.1.2 Transition in number of female entrepreneurs

Business activities by women are increasing every year in the field such as production of special local products utilizing local agricultural products, and its sales in the early-morning market, interchanges between urban communities and rural communities. As of the end of 2005, 9050 cases (4.4% increase over the previous year) are reported.

In the report, food processing shares 75% (6,816 cases) and distribution/sales at early-morning market, etc. shares 44% (3,199 cases), and in general, enterprises using regional agricultural products account for a large share.

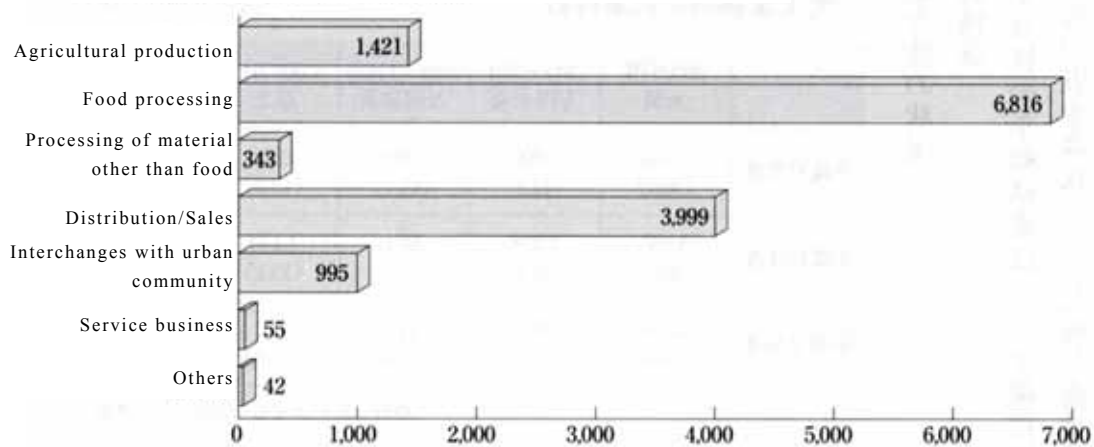
○Transition in number of female entrepreneurs

Unit: case



Source: Agricultural Extension Service, Women and Youth Affairs Division, Ministry of agriculture, forestry and fisheries.

○Breakdown of entrepreneurial activities (multiple answers)



Source: Agricultural Extension Service, Women and Youth Affairs Division, Ministry of agriculture, forestry and fisheries.

2.1.3 Tasks of business activity by women and measures to support

Tasks of business activities by women in rural community are:

- (1) Lack of knowledge in regard to entrepreneurial procedures
- (2) Insufficient funds when commencing business

(3) Lack of information

(4) Insufficient relationship between entrepreneurs

With regard to these tasks of female entrepreneurs, support systems like:

(1) Providing sufficient and broad information such as tax alleviation, marketing, process/hygienic management/labeling and business management,

(2) Supports in securing financial resources credit, facilities and equipments,

(3) Improvement of information service media such as utilizing mobile phone, etc. and introduction to successful examples,

(4) Holding nation-wide level information exchange meetings and workshops, etc.

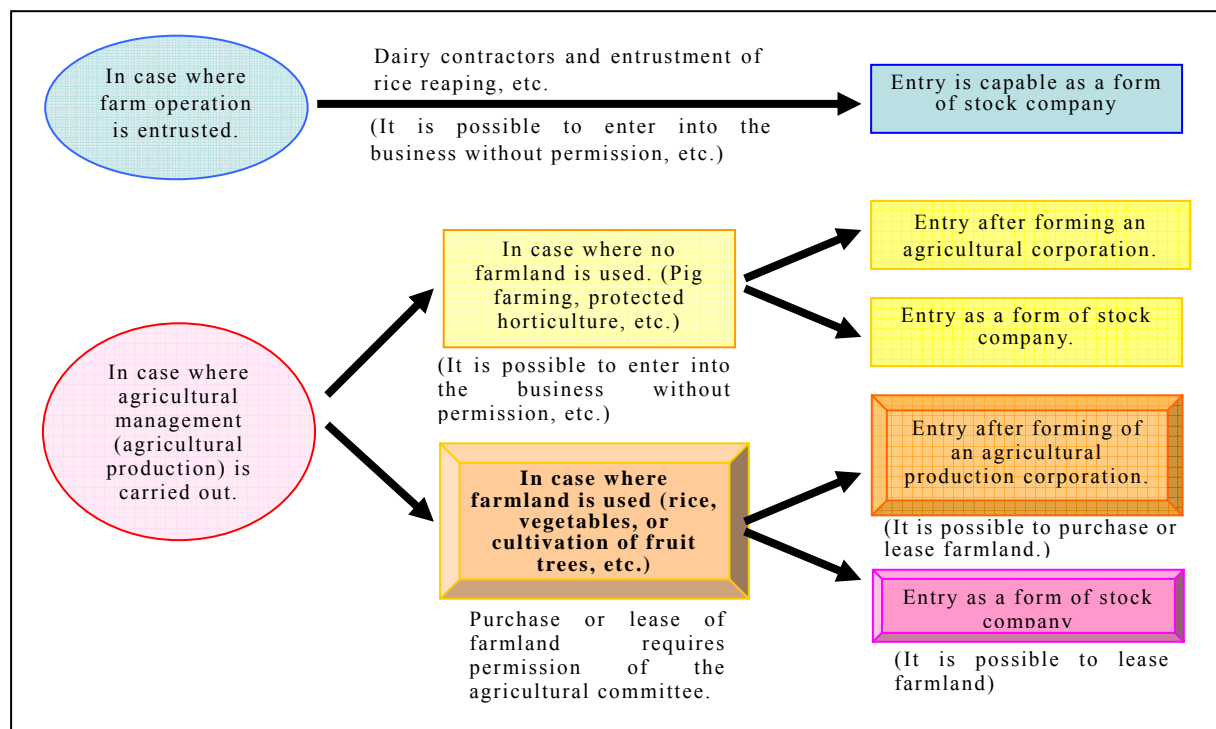
are provided by farmer's cooperative, and prefectural and municipal governments' agricultural extension centers. In addition, priority credit services specially arranged for female entrepreneurs are implemented.

2.2 Participation in the agricultural sector by enterprises

2.2.1 Promotion of enterprises' new entry into agricultural sector encouraged by deregulation.

Of recent years, while ageing of farmers and generation changes are proceeding, to deal with the shortage of workforce and enlarging abandonment of cultivation, it is promoted for businesses to enter into agricultural sector as deregulation, etc. progresses, and corporations in various configurations can participate in agriculture.

○ Enterprises in various configuration entering into the agricultural sector



*Agricultural corporation is a general term for those who manage agriculture in a form of legal person, and it is roughly divided to the following two:

- (1) Companies (stock companies, etc.)
- (2) Agricultural producers' cooperative corporations (a legal person in a form of association directly engaged in agricultural production).

Agricultural corporations can also be broadly classified as "agricultural production corporations" or "general agricultural corporations". This classification depends on whether the agricultural corporation has rights over farmland or not.

An agricultural production corporation is a corporation that has rights of ownership or profit from the use of farmland or pastures, as stipulated under the Agricultural Land Law. To become an agricultural production corporation, it is required to suffice the conditions such as that sales originated from agriculture (including related business such as processing, sales, entrustment of farm operation) is beyond a half of total sales, etc.

Poultry or pig farming that can be carried out without farmland is not classified as agricultural production corporations. These farms are simply classified as agricultural corporations. Other corporations that need farmland must meet the requirements for becoming corporations, agricultural producers' cooperative corporations or agricultural production corporations.

2.2.2 Advantages of agricultural corporations

Interest in and awareness of the importance of agricultural corporate management is increasing. This is clearly specified in "Promotion of incorporation of farm management" of the "Basic Law on Food, Agriculture and Rural Areas," which was established in July 1999.

The advantages of incorporation of farm management are as follows:

Table 2.1 Advantages of incorporation of farm management

Advantages of management	Improved ability of management	Promotes changes in the awareness that managers take responsibility for management. Clearly defines role management by separating family finance from management.
	Improved external trust	Improves the trust and confidence in transactions because of the clarification of financial management through figures and various legal obligations (establishment and registration, management reports, etc.) Improves the image of the business by forming a corporation; thus facilitating smooth commodity transactions and hiring of employees, etc.
	Improved package of benefits for farmers	Enhances benefits for farmers through employment insurance, etc. Sets out work rules, such as labor hours, etc. and clearly defines working conditions by introducing a salary system.
	Ensures smooth succession of personnel and provides support for new farmers	It is possible to ensure the succession of capable people, from executives to employees of the corporation. By getting a job at a corporation, those who wish to become farmers are able to acquire management skills and farming techniques without initial costs.
Institutional advantages	Preferential treatment concerning taxes	Alleviates taxes on business owners by distributing income. Corporate tax, which is proportional taxation, is applied. Tax saving when compensation for executives is treated as employment income. Bonuses for employees also working in executive positions are included in expenses. Inclusion in expenses of retirement allowances, etc. Carry-over of losses for five years and refund carry-back. Accumulated reserve funds by using farmland.
	Borrowing money	Expands the loan limit Ensures a guarantor when borrowing money.
	Support for the acquisition of farmland	The burden of acquiring farmland is reduced by the Agricultural Land Holding Rationalization Corporation, which makes investment in kind, such as farmland, etc. (project of investing in and nurturing by the agricultural production corporation)

2.2.3 Corporations that can now participate in the agricultural sector

General stock companies, etc. were previously not granted approval to commence agricultural operations by acquiring the rights to farmland under the Agricultural Land Law unless they participated in an agricultural production

corporation that is mainly organized by agriculture-related people.

In the Special Zones for Structural Reform that came into effect in April 2003, however, "Preferential measures in the Agricultural Land Law (Special zones for leasing), which makes it possible to lease farmland to corporations other than agricultural production corporations," were implemented. By utilizing this measure, it can be seen that corporations can commence agriculture in various regions.

In regard to this special zone plan, measures were implemented throughout Japan under the Promotion Law of Strengthening the Foundations of Farm Management in September 2005. Because of this, general stock companies, etc. can participate in the agricultural sector following assessment by regional areas. As of March 2006, 156 corporations were participating in the agricultural sector through this measure.

The Government aims at increasing in total number of general companies, etc. who are participating in the agricultural sector to 500 corporations by year 2010.

2.2.4 A mechanism for enterprises to participate in the agricultural sector by way of farmland leasing system

(1) Areas or zones where enterprises can participate in the agricultural sector

- Abandoned farmland or pasture and where there is a fear that agricultural operation will be abandoned, plus areas or zones where municipalities stipulate in Fundamental Plans prepared to enhance the foundation of the agricultural management.

(2) Concluding agreements

- Enterprises that wish to participate in the agricultural sector conclude agreements with municipalities (and the Agricultural Land Holding Rationalization Corporation) to lease agricultural land. The contents of the agreements include essential tasks for regional agriculture, such as farm management, cleaning the irrigation system, etc.

2.2.5 Support measures

Support measures are provided with respect to agricultural machinery that is necessary for participation in the agricultural sector, arranging facilities and farmland for use, and compensation for unexpected events, such as disasters.

(1) Assistance

- Arranging agricultural machinery and facilities, etc.
- Improving the condition of the land

(2) Financial measures

- Super L Fund (Super long-term fund for improving farm management for prospective farmers)

- Agriculture Modernization Fund (Long-term fund for improving farm management for prospective farmers)
- Super S Fund (Short-term fund for improving farm management for prospective farmers)
- Agricultural Extension Fund (Fund for the challenge of a new product field or new technology)

(3) Agricultural mutual relief (Agricultural disaster compensation system)

- This is compensation that lightens the adverse impact of events, such as decreases in crop yields or deterioration in crop quality caused by natural disasters, etc.

2.2.6 Case examples of enterprises that participate in the agriculture

There are mainly the following typical patterns where corporations enter into the agricultural sector.

- (1) Local constructors participated in the agricultural sector by effectively utilizing their surplus labor, or by requests of municipalities from the viewpoint of regional development.
- (2) Food industries entered into the sector in order to secure high quality materials in a stable manner.
- (3) Incorporated nonprofit organizations manage agriculture in order to make opportunities for urban population to experience agriculture, and interchange with rural population.
- (4) An Iron and steel company constructs and manages plant factories using its own ability of plant (facility) engineering design and know-how in order to effectively utilize its excessive resources.
- (5) An automobile manufacturer enters into agri-business of growing and sales of flower and ornamental plants and environmental greening business in order to improve its corporate image.

There are also many cases that municipalities invite local enterprises to participate in the agricultural sector. The municipalities, the extension and instruction centers for agriculture, the agricultural committees and the farmer's co-operative assist the newly participated organizations in the technical aspects.

Table 2.2 Organizational form and category of business of Corporations that participate in the agricultural sector

Number of corporations participating in	By organizational form			By category of business, etc.		
	Stock companies	Limited companies	NPO, etc.	Construction companies	Food-related companies	Others
173	89	46	38	59	46	68

As of September 1, 2006, The Ministry of Agriculture, Forestry and Fisheries.

2.2.7 Agri-business models proposed from the results of collaboration with industries, governments and universities

When promoting enterprises' entry into agriculture, it is very difficult for only a business alone that wishes to participate in the agricultural sector to implement R&D to create a new variety or new food stuff that reflects regional characteristics, and marketing, etc. to build sales channels or a network. Thus it is encouraged to build close links in collaboration with industries, governments and universities.

(1) Food industry cluster

In general, the food industry consists of small and medium sized enterprises. So circumstances become very difficult for these enterprises to manage and meet the needs of consumers due to the current situations where imported agricultural products and foods with lower prices are increasing. To deal with these circumstances, there are trial cases in many places to build networks (clusters) that efficiently link the regional foodstuff (resources), human resources and technologies, and to develop new merchandises, etc. in collaboration with enterprises, governments and universities.

The Government is supporting in a comprehensive manner technically to create the food industry clusters in the regions such as taking place trade fairs to promote building clusters, placing coordinators to support linking, and nurturing human resources who strategically utilize the outcomes of R&D as intellectual property.

(2) Development of local brand

It is important to produce high-value added regional agricultural products and foodstuff, and differentiate them through the promotion of local brands, etc. in order to strengthen the competitiveness of the regional agriculture and food

industries. To implement these, it is required to make efforts in a comprehensive manner to develop products (traditional or newly developed) that have regional flavor, research markets, create sales channels and protect the intellectual property factor of branded products. The Government is supporting R&D, collaborative research, holding trade fairs of foodstuff to develop sales channels, protection of intellectual property of regional branded products in a system of collaboration with industries, governments and universities, in order to support at each of these phases of activities.

(3) Wide-area cooperative agri-business model

When agricultural producers and food industries work together from production to processing, distribution and sales in an integrated fashion, it is necessary to widen the working area crossing the prefectural border. The Government provides subsidies for facilities required by these activities.

2.3 Forming corporations to carry out cooperative farming in rural communities

2.3.1 “Rural community” and “cooperative farming”

A “rural community” is in general a concept of “a naturally generated regional society and a basic unit of social life that forms many groups and social relationships by connecting households based on territorial connections and blood relationships”.

Meanwhile, “cooperative farming” is defined as “farming based on a rural community as a unit, and carried out under the agreement on cooperation and unification in the whole or partial process of agricultural production”.

In concrete terms, efforts that suit one of the followings:

- (1) A rural community shares agricultural machineries, and farmers who participate in cooperative farming use the machineries based on the agricultural management plans that involve entire community.
- (2) A rural community shares agricultural machineries, and operators’ organization, etc. that is entrusted the basic agricultural works by farmers who participate in cooperative farming, uses the machineries.
- (3) By regarding all the farmlands or pasture in a rural community as one single farmland, and totally manage and operate agriculture in the rural community.
- (4) While concentrating farmlands on eager and prospective farmers in a community and proceeding gradually entrustment of agricultural works, and using lands and operating agriculture effectively based on comprehensive agricultural management plans in the rural community.
- (5) Farmers who participate in cooperative farming provide workforce and manage agriculture in collaboration.

(6) Adjusting land use in a rural community such as use of farmlands as agricultural industrial complex.

Cooperative farming like these is contributing to maintain regional agriculture mainly in regions where agriculture are operated often by part-time farmers and elderly farmers and workforce is not sufficient. Further, it is expected that cooperative farming will become and develop to a mainstream of agricultural production in rural communities in the future. The survey carried out in year 2005 revealed that there are 10,063 cooperative farming organizations, and among them, 1,480 cases which corresponds to 15% of the total are in advanced situations that agriculture in the communities are totally managed and operated.

2.3.2 Tasks for forming organizations and corporations to carry out cooperative farming in rural communities

In order to nurture and ensure prospective farmers, it is important to understand the local circumstances. There must also be participation from various types of farmers, such as part-time farmers, elderly farmers, small-sized farmers and prospective farmers. The formation of organizations carrying out cooperative farming in rural communities should be accelerated, but at the same time, the formation of companies with efficient and stable management should be promoted. These are the tasks to be tackled.

Management of agriculture by forming corporation brings not only advantage like separation of family finance from management and making it clear as explained in the section 2.2.2, but also institutional advantages like application of social insurance and preferential treatment in taxation and loans.

2.3.3 Support for forming organizations and corporations to carry out cooperative farming in rural communities

The necessity of forming organizations to carry out cooperative farming in rural communities is broadly recognized primarily by the representatives of the rural communities. Promoting organization and incorporation has many problems: there is no leader, there is no system in place, and it is difficult to get elderly people etc. to participate.

To promote forming organizations and corporations to carry out cooperative farming in rural communities, it is important to promote ideas, such as the preparation of systems that should be implemented by related people together in local areas, fostering people who can be a central role as farmers who are interested in cooperative farming in rural communities, and let farmers know the concrete benefits of cooperative farming in rural communities.

Especially for farmers, it is important to let farmers know the concrete benefits of cooperative farming in rural communities. The benefits are cost reduction by owning and using agricultural machinery or using the field land by the whole rural community. Other benefits are the efficiency of agricultural operations and the participation of various parties, such as part-time farmers, elderly farmers, small-sized farmers, etc. Currently, measures such as implementing workshops to create leaders, dispatching of specialists to unify the accounting, developing infrastructure and encouraging disposal of privately-owned agricultural machinery, etc. are taken as supports to form organizations and incorporations engaged in cooperative farming.

Chapter 3 Conclusion

In the Basic Plans for Food, Agriculture and Rural Area that the Government newly instituted in March 2005, “nurturing and securing leaders towards establishment of desired agricultural structure” is positioned as one of the most important tasks, and it says “while decreasing in number of farmers and proceeding ageing of agricultural population are anticipated in the future, to establish the desired agricultural structure in which efficient and stable management shares a significant part of agricultural production, we struggle positively to nurture and secure eager and prospective leaders”.

And these entrepreneurial efforts in rural communities create new business opportunities for various categories of business in the region, thus, it is expected that these activities revitalize the regional socio-economical activities and significantly contribute to the region.

For realizing this, promotion of the above entrepreneurial efforts in various configurations in agricultural communities requires close links with the central Government, local authorities, agricultural organizations and private businesses.

Reference:

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