

WORKING PAPER #1

# FINANCIAL INCLUSION AND JAPANESE SOCIETY

Japan NPO Center

March 2016

# FINANCIAL INCLUSION AND JAPANESE SOCIETY

3	<b>Executive Summary</b>	
4	<b>1. Context Setting</b>	
	1.1.	Poverty in Japan: The Failure of Conventional Wisdom
	1.2.	Conceptualizing Financial Inclusion in Japan
	1.3.	Definition of Financial Inclusion
8	<b>2. Landscape Analysis</b>	
	2.1.	Research on Financial Inclusion/Exclusion in Japan
	2.2.	Financial Exclusion in Japan Today
	2.2.1.	Reasons for Financial Exclusion
	2.2.2.	Financially Vulnerable Groups
		Women
		Children and Youth
		The Elderly
		Non-Japanese Residents
16	<b>3. Government Policies</b>	
	3.1.	Response to the “Multiple-Debt” Issue in the 2000s
	3.2.	Supporting the Independence of People Living with Poverty
	3.2.1.	The Law for Supporting the Independence of People in Need
	3.2.2.	Long-Term Care Insurance System Reform
	3.2.3.	Law for the Advancement of Anti-Child Poverty Measures
20	<b>4. Private Services and Programs</b>	
	4.1.	Affordable Lending Programs
	4.1.1.	Consumer Co-operative’s Financial Coaching and Affordable Lending Program
	4.1.2.	Affordable Lending Programs for Particular Demographics
	4.1.3.	Other Lending Programs for Those in Need
	4.2.	Financial Education Programs
	4.2.1.	The Council of Home Economics Education Promotion for Independence
	4.2.2.	MoneyConnection Program by Sodateage-Net.
	4.2.3.	Other Support Programs
23	<b>5. Service Vacuum</b>	
24	<b>6. Conclusions and Recommendation</b>	
	6.1.	Conclusions
	6.2.	Recommendation: Developing Financial Inclusion Programs in Japan
	6.2.1.	Financial Education Programs
	6.2.2.	Financial Service Programs
	6.2.3.	Research and Awareness-Raising Programs
27		Annex 1: List of People Interviewed in Interviews and Consultation Sessions
28		Annex 2: References on Financial Inclusion/Exclusion in Japanese

## ■ Executive Summary

Even though the concept of financial inclusion is still foreign to most Japanese people, it is becoming obvious that more and more people in Japan are facing the risk of financial exclusion today. Relative poverty is an indicator used to show how much poverty exists in different societies, especially in developed nations. In 2009, 16.0% of the population in Japan was “below the poverty line,” and this percentage ranks 6th from the top among OECD countries.

Dramatic changes are taking place in Japanese society, including increasing poverty and inequality. In this changing environment, people can easily fall into a state of financial exclusion. Likely reasons for financial exclusion include:

### > Economic Reasons

- Low income (irregular employment, part-time job only, etc.)
- Multiple debts (monthly repayment too high to sustain living)
- Joblessness (unemployed, NEET[Not in Employment, Education or Training], mental issues, etc.)
- Lack of parental support
- Inability to work in regular full-time job due to age or disability
- Single mothers (inability to work in regular full-time job due to child care)

### > Non-Economic Reasons

- Residents in rural areas (poor access to financial services)
- Inability to use financial services (lack of knowledge, ability to make financial judgments)

In today's Japan, groups that are considered financially vulnerable include women, children and youth, the elderly and non-Japanese residents.

### - Women

The 2010 White Paper on Gender Equality states, “(O)ne finds that for almost all age groups women have a higher poverty rate than men, with the gap increasing in higher age brackets... (P)overty is higher among elderly and working-age single-person households, especially those of women. Moreover, poverty is higher among single-mother households, and thus the children of those households.”

### - Children and Youth

The 2014 White Paper on Children and Young People shows that relative poverty of children has been increasing since the mid-1990s and was 15.7% in 2009. Children of households with only one adult are suffering the most, with 50.8% in relative poverty.

### - The Elderly

Japan's rate of elderly population has now reached a level unprecedented in the world's history. In comparing the speed by which the elderly rate doubled from 7% to 14%, it took France 126 years; Sweden 85; Germany 40 and the UK 46, whereas it took Japan only 24 years (from 1970 to 1994). The average per capita income of elderly households is 1,979 thousand yen,<sup>1</sup> which is not so different from the overall average; however, in more than 70% of elderly households, 80% or more of the income comes from pension payments.

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<sup>1</sup> As of March 1, 2016, US\$1 equals to about 113 Japanese yen.

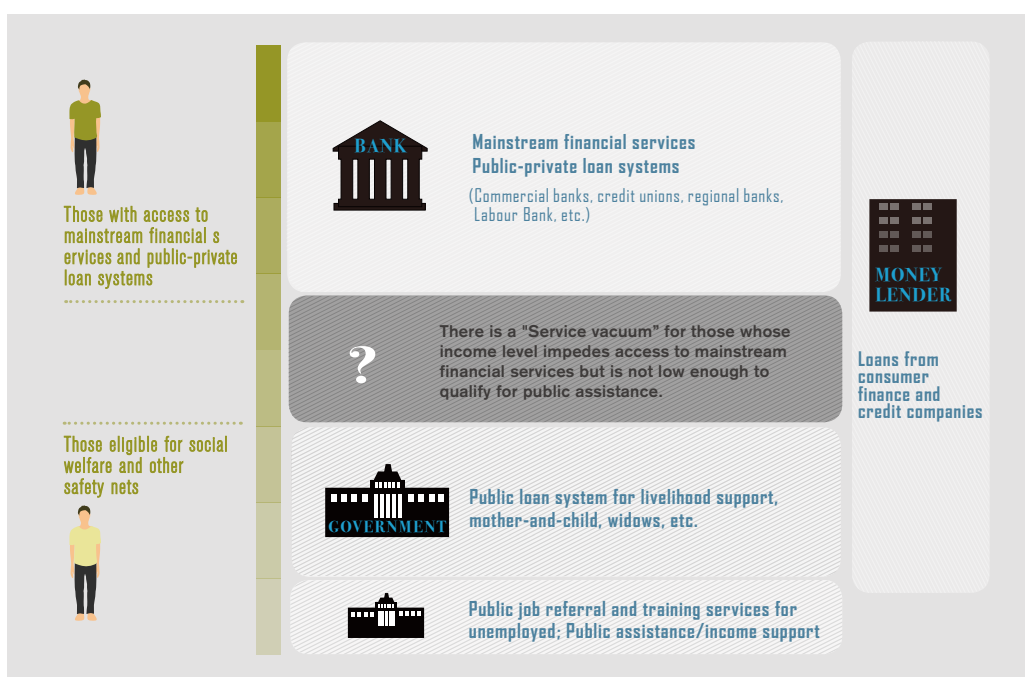
### - Non-Japanese Residents

As of June 2014, there are approximately 2.08 million legal non-Japanese residents in Japan, which translates to about 1.7% of the entire population. While many “old-comers” have aging issues, the “newcomers” tend to suffer from unstable and low-wage labor.

In response, the government has started to build a legal and policy framework to address the growing issue of social and financial inclusion, starting with the response to the “multiple-debt” issue in the 2000s and the strengthening of support for the independence of people living with poverty. The most recent addition is the Law for Supporting the Independence of People in Need, which took effect in 2015. On the private (ie., non-public) front, nonprofit organizations, cooperatives and other social sector institutions started or strengthened efforts in the area of affordable lending programs and financial education programs. Although public and private efforts are under way to address the growing needs, more concerted efforts are needed to match accelerating demand.

A key finding of this Working Paper is that there is a “service vacuum” for a low-income segment of the population which sits between high to mid-income people with access to the regular services of financial institutions on the one hand, and very low income people who are eligible to receive welfare on the other.

This Working Paper concludes that the concept of financial inclusion is useful and applicable as an analytical framework to identify and address a new emerging and enlarging social issue in Japan, especially by directing attention to the increasing gap between demand and supply of financial services for given demographics. Based on the growing need for financial inclusion programs in Japan, the Working Paper recommends that any interested parties from either the public or the private sector should consider developing programs in the areas of financial education, financial service provision and research and awareness-raising.



Financial Service Vacuum

# ■ 1. Context Setting

## 1.1. Poverty in Japan: The Failure of Conventional Wisdom

The conventional wisdom that “everyone is middle class” took hold in Japan after the rapid economic growth of the 1960s and 70s, in which poverty was not a concern for the majority of the Japanese public. It was assumed that the social safety net provided by the government would take care of people in the unlikely event of a financial hardship. Of course, poverty did exist in Japan, but it was a foreign concept for many ordinary citizens.

In fact, the household saving rate<sup>2</sup> in Japan was high compared to other industrialized countries through the 1960s, 70s and 80s. An article in 1986 titled “Why is Japan's Saving Rate So Apparently High?”<sup>3</sup> acknowledged that the household saving rate in Japan had held steady in the realm of 15% or so for more than 20 years and that it surpassed more than 20% in the mid-1970s, while that of the US in the same period was stationary at around 6%. These figures attest to the fact that the perception of “middle-class” status was corroborated by financial data. Then, 20 years later, another article posed a different question: “Why Does Japan's Saving Rate Decline So Rapidly?”<sup>4</sup> The figures provided by OECD showed a downward trend in Japan's saving rate since the 1990s, and the rate dropped to around 3% in 2004. The trend did not stop there, and in late 2014, the world news carried a story depicting Japan's saving rate as negative 1.3%, the first time since 1955 that the Japanese spent more than they earned.<sup>5</sup>

Katayama, in his 2006 article, presented four major reasons for the rapid decline, including an aging society (the elderly population's spending rate is usually higher than that of younger cohorts), declining income (spending pattern usually takes more time to change), social security reform (which lessened anxiety among the elderly, causing them to save less), and a shift in the cultural mindset from future-orientation to present-orientation (thus saving less).

Whatever the reasons may be, the conventional wisdom has been broken. These days, hardly a day passes by without a report or two about growing inequality, child poverty and job instability among the young.

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2 The household saving rate is calculated as the ratio of household saving to household disposable income (plus the change in net equity of households in pension funds). See: [http://www.oecd-ilibrary.org/sites/9789264067981-en/02/05/index.html?itemId=/content/chapter/9789264075108-10-en&csp\\_=334d58e261bd2a29e227b29622ca5b0a](http://www.oecd-ilibrary.org/sites/9789264067981-en/02/05/index.html?itemId=/content/chapter/9789264075108-10-en&csp_=334d58e261bd2a29e227b29622ca5b0a)

3 Hayashi, Fumio (1986), Why Is Japan's Saving Rate So Apparently High?, Fisher, Stanley (ed.), *NBER Macroeconomics Annual 1986*, Vol. 1. MIT Press

4 Katayama, Kentaro (2006), Why Does Japan's Saving Rate Decline So Rapidly?, PRI Discussion Paper Series (No 06A-30)

5 “Japan's savings rate turns negative for first time,” BBC News, 26 December 2014. <http://www.bbc.com/news/business-30603313>

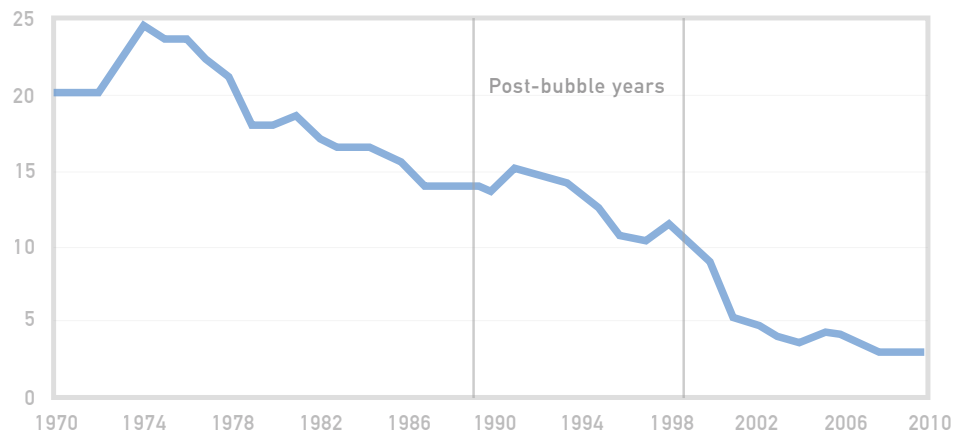


Figure 1 : Japanese Household Saving Rate (1970-2010)  
(source: Edward Chancellor, "Reflections on the Sovereign Debt Crisis" (July 2010)) <sup>6</sup>

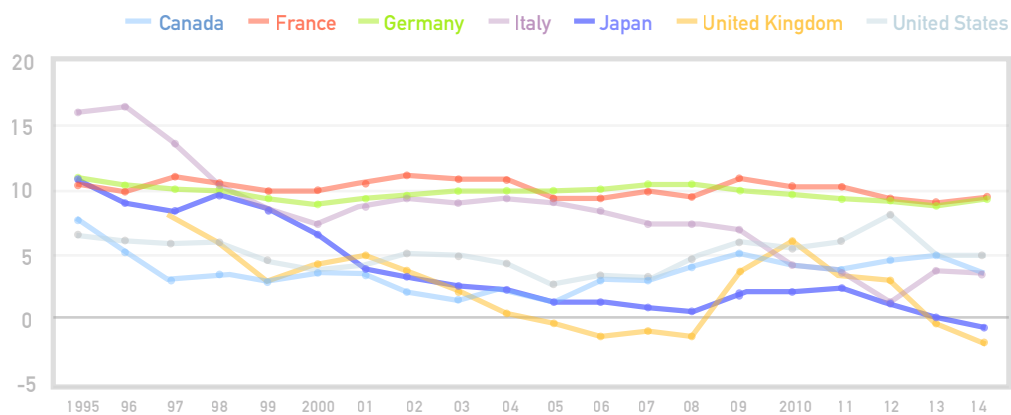


Figure 2 : Household Saving Rate in G7 Countries (1995-2014)  
(source: OECD) <sup>7</sup>

## 1.2. Conceptualizing financial inclusion in Japan

Although conventional wisdom may have been shattered, the concept of financial inclusion has not yet gained currency in Japan. The idea of financial inclusion is based on the assumption that certain groups in society are financially “excluded.” Unlike some other developed economies, one does not usually hear in Japan that someone has been rejected from creating a bank account, or that a monthly fee is charged unless you have a certain level of balance in your account. Loans are a different story, of course, but whether or not banks provide loans largely depends – at least according to public perception – on what kind of collateral you have, which is purely based on economic calculations. The same public perception assumes that the notorious “sara-kin” (somewhat close to loan sharks) are problematic for society, but that the problem resides largely with people who cannot control their personal finances and borrow more than they can repay. When it comes to financial security, you deserve what you get based on your economic accomplishments, and so nobody is really “excluded,” and it makes little sense to try to have everyone “included” – so the story goes.

<sup>6</sup> <https://www.scribd.com/doc/34107224/ECReflectionsontheSovereignDebtCrisis>

<sup>7</sup> <https://data.oecd.org/hha/household-savings.htm>

Thus, the translation of “financial inclusion” does not appear in the Japanese lexicon today, except for some esoteric circles of experts and scholars in finance. The term “social inclusion” is gaining recognition in Japan these days, especially in the policymaking arena, but the same cannot be said of “financial inclusion.”

### 1.3. Definition of Financial Inclusion

Both financial inclusion and exclusion were known as policy concepts formulated by the Blair Administration in the UK in the 1990s. According to Professor Takashi Koseki, the term “financial exclusion” has been defined in two different ways. One definition focuses on lack of access, in that “particular segments of society are either unable or unwilling to access general and mainstream financial services, or both.”<sup>8</sup> The other focuses on financial exclusion as part of social exclusion, namely “a process by which certain persons find it more and more difficult to access or use financial services and are thereby unable to sustain a minimum level of normal life.”<sup>9</sup>

For MetLife Foundation (MLF) and MetLife Japan (MLJ), financial inclusion is defined as follows:

“Financial Inclusion means that financially-vulnerable households and their businesses have convenient access to a full suite of quality, affordable financial services, delivered by trustworthy providers with respect for the customer. These services allow improved management of incomes and assets, ultimately contributing to greater self-sufficiency and financial security.”<sup>10</sup>

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8 Carbo, Santiago, Gardener, Edward P. M. and Molyneux, Philip (2005), *Financial Exclusion*, Palgrave Macmillan.

9 Gloukoviezoff, Georges (2011), Understanding and Combatting Financial Exclusion and Overindebtedness in Ireland: A European Perspective. *Studies in Public Policy* 26. The Policy Institute. Both definitions are quoted in Hiroya Noda (2012), Kinyu Haijo no Gainen (Concepts of Financial Exclusion), *Collection of Articles* 61, Faculty of Education and Welfare, Aichi Prefectural University. Note that the original English definitions may be different, as they were re-translated from Japanese translations.

10 From MLJ's internal documents.

## ■ 2. Landscape Analysis

Even though the concept of financial inclusion is still foreign to the Japanese context, it is becoming obvious that there are people in Japan who might be financially “excluded” given the definition of financial inclusion above.

### 2.1. Research on Financial Inclusion/Exclusion in Japan

The concepts of financial inclusion and exclusion were not a subject of scholarly analysis in Japan until the mid-2000s or so. This is primarily because the financial service in Japan had boasted almost “universal” coverage in which the national postal service network (which provided “postal” accounts and money-transfer services) and regional banks penetrated to many remote villages.

When the privatization of the postal service became a hot national policy topic in the early 2000s, there was a growing concern that service would be cut in rural areas where it was hard to maintain sufficient operating revenue, thereby creating the issue of financial exclusion. It was therefore around that time when scholars started to argue that the concepts of financial inclusion/exclusion were needed to analyze this emerging social issue. Even after the privatization, however, the reality of financial exclusion did not become a major social issue. Coupled with the fact that there is only a small number of scholars and researchers conducting empirical research on the subject, this means that available data is very limited, even today.<sup>11</sup>

One exception is a research report published by the Japan Research Institute in 2013, which explores the possibility of introducing the practice of micro-finance to Japan,<sup>12</sup> but the web search which yielded this Working Paper did not find other comprehensive studies, research reports or policy papers related to the subject of financial inclusion.

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11 According to Professor Takashi Koseki

12 The Japan Research Institute (2013), *Waga Kuni niokeru Micro-Finance Seido Kochiku no Kanousei oyobi Jissen no Arikata nikansuru Chosa/Kenkyu Jigyo* (A Research Study on the Feasibility and Possible Practice of Micro-Finance Programs in Japan)



## **2.2. Financial Exclusion in Japan Today**

### **▪ 2.2.1. Reasons for Financial Exclusion**

In the course of research for this Working Paper, it has been revealed that several social groups are likely targets of financial exclusion. Beyond anecdotal episodes and hearsay, this Working Paper could not pinpoint any concrete evidence which shows that “exclusion” actually exists, but the following reasons can be identified as likely causes of exclusion:

#### **> Economic Reasons**

- Low income (irregular employment, part-time job only, etc.)
- Multiple debts (monthly repayment too high to sustain living)
- Joblessness (unemployed, NEET[Not in Employment, Education or Training], mental issues, etc.)
- Lack of parental support
- Inability to work in regular full-time job due to age or disability
- Single mothers (inability to work in regular full-time job due to child care)

#### **> Non-Economic Reasons**

- Residents in rural areas (poor access to financial services)
- Inability to use financial services (lack of knowledge, ability to make financial judgments)

### **▪ 2.2.2. Financially Vulnerable Groups**

In today’s Japan, groups that are considered financially vulnerable include women, children and youth, the elderly and non-Japanese residents. In a consultation session conducted for this Working Paper, several participants commented that they had not known the term “financial inclusion”, but that the programs they had created actually addressed the issue of social and financial exclusion of women, youth, and the elderly, which demonstrates that the needs of these groups have already been identified to some degree.

A rough sketch of the current situation is provided below, starting with the general description of poverty in Japan.

A survey by the Ministry of Health, Labour and Welfare for January 2015 states that the working population of Japan is 63.09 million, of which full-time employees comprise 32.73 million and contracted workers 19.89 million. There are 2.31 million unemployed, with an unemployment rate of 3.6%. As of February 2014, there are 2,166,381 persons on welfare (1,598,818 households), with a rate of 1.70% on welfare (see Figure 3).

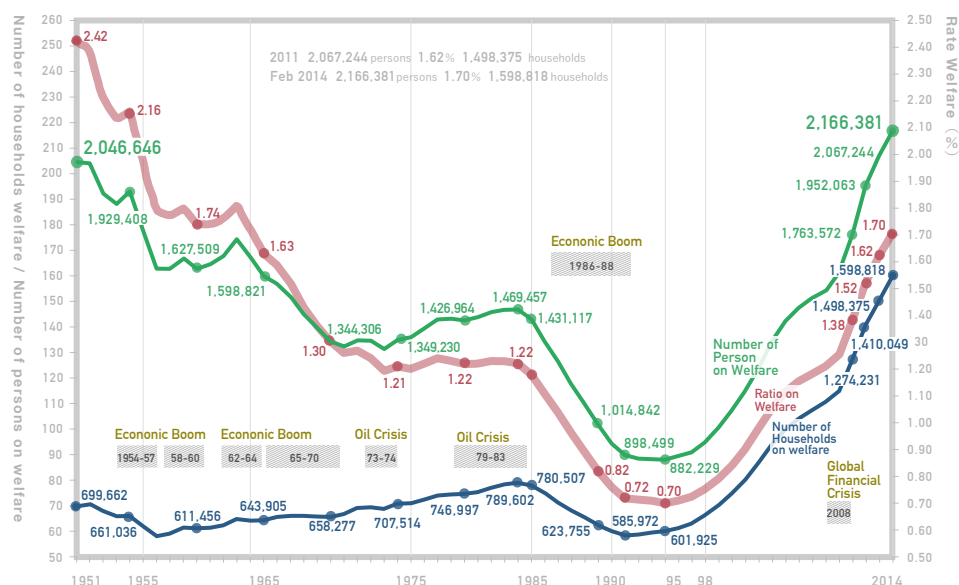


Figure 3 : Persons and Households on Welfare by Year  
(source: The 17th Social Welfare Standards Subcommittee of the Social Security Committee, May 16, 2014)

	2003	2006	2009
Israel			20.9
Mexico	18.4 (2004)	20.9 (2008)	20.4 (2010)
Turkey			19.3
Chile		19.2	18.4
United States	17.2	16.8	16.5
Japan	14.9	15.7	16.0
Korea		14.3	15.3
Spain		13.7	15.0
Greece		13.5	13.0
Canada	11.8	11.2	12.3
Italy			12.1
Portugal	10.8	12.6	12.0
New Zealand			11.9
Poland	11	11.5	11.3
Estonia	8.1	13.7	10.8
United Kingdom		11.2	9.9
Germany		8.3	9.5
Switzerland			9.5
Belgium		9.8	9.4
Ireland		11.3	8.8
Slovenia		7.6	8.7
Sweden			8.7
Luxembourg		7.5	7.9
Slovakia		6.3	7.8
Austria		7.8	7.5
France	7	7.2	7.5
Norway			7.5
Netherlands		6.7	7.4
Hungary	8.2		6.8
Iceland		5.7	6.5
Denmark		5.6	6.4
Czech		5.5	5.9

Table 1 : Relative Poverty in Comparison  
(source: OECD)

“Relative poverty”<sup>13</sup> is an indicator that is increasingly being used to denote how much poverty exists in different societies, especially in developed nations. In 2009, 16.0% of the population in Japan was “below the poverty line”, and this percentage ranks 6th from the top among OECD countries. Compared to gradual changes in other countries, the steep upward curve of Japan is noticeable. (Table 1)

13 Relative poverty is measured by the poverty rate and the poverty gap. The poverty rate is the ratio of the number of people whose income falls below the poverty line and the total population; the poverty line is taken as half the median household income.

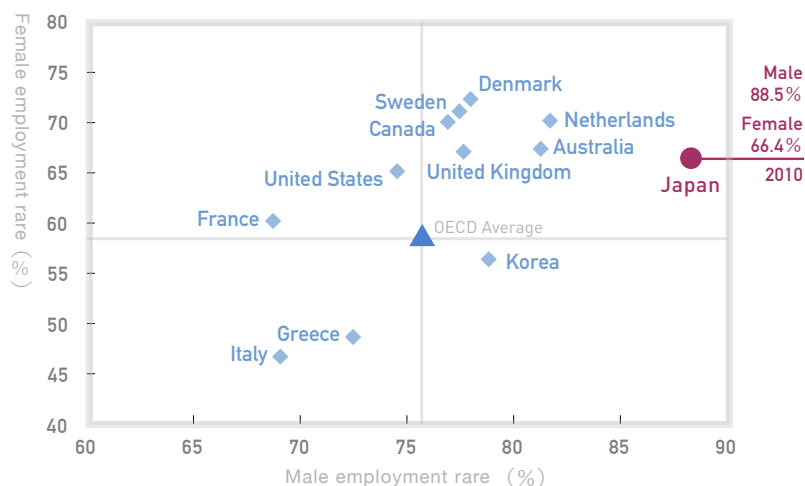


Figure 4 : Male vs Female Employment (15 years and older) (source: OECD)

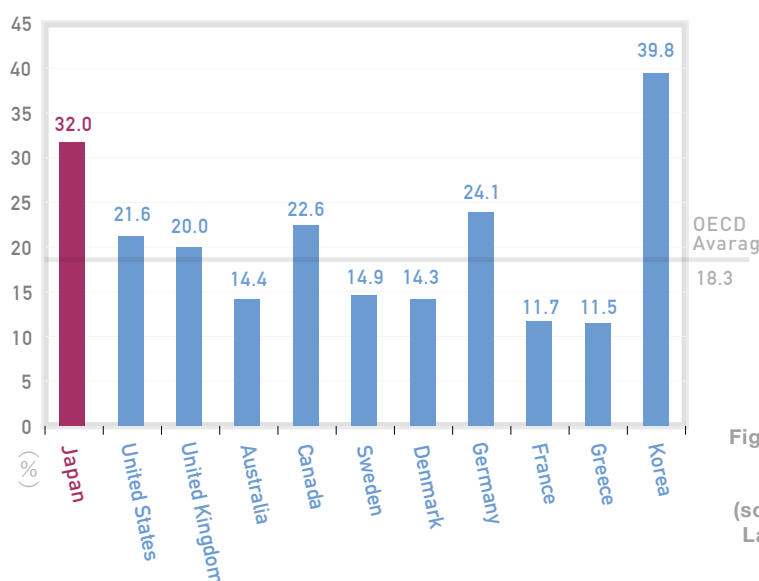


Figure 5 : Male-Female Wage Differential (full-time employees) (source: 2012 Annual Health, Labour and Welfare Report)

## - Women

The 2012 Annual Health, Labour and Welfare Report states that male employment is highest in Japan with 89%, whereas it is lowest in France with 69%. Female employment, on the other hand, is highest in Denmark with 72% and lowest in Italy with 47%. It is 66% in Japan, and the male-female differential of about 22 percentage points is very high in comparison to other countries. (Figure 4)

Figure 5 shows the male-female wage differential,<sup>14</sup> which is highest in Korea with 39.8 and lowest in Greece with 11.5. Japan ranks second with 32.0.(source: 2012 Annual Health, Labour and Welfare Report)

As the 2010 White Paper on Gender Equality describes, “Computing poverty rates of men and women in different age groups, one finds that for almost all age groups women have a higher poverty rate than men, with the gap increasing in higher age brackets. Looking at the figures by household type, one finds that poverty is higher among elderly and working-age single-person households, especially those

14 Difference of male-female full-time worker median wage divided by male median wage.

of women. Moreover, poverty is higher among single-mother households, and thus the children of those households.” In a consultation session for this Working Paper, one participant commented that besides the pure economic reasons, single-mother households find it more difficult to borrow money because financial institutions are more reluctant to lend to them – and the pattern persists, trapping them in a vicious cycle of poverty.

The Report goes on to point out that likely reasons include the fact that “traditional division of roles between men and women persists, and with work-life balance not sufficiently practiced, it usually falls on women to stop working due to childcare and care for the elderly. It is also usually the case that women serve as a “safety valve” for the economy’s ebb and flow, reinforced by a tax and social security framework that encourages this role. As a result, it is usually women who end up in unstable, low-earning jobs. Moreover, because of this work-style, women’s pension is usually lower than men’s, and thus the income security when one gets older is lower for women.

Furthermore, it needs to be pointed out that many women suffer from physical and mental violence that affects their self-esteem, thereby making it harder to fully participate in societal activities, work or otherwise.”

One must also take note of the World Economic Forum’s Global Gender Gap Index, whose report for 2014 ranks Japan 104th among 142 countries. The total ranking combines 1) economic, 2) educational, 3) political and 4) health dimensions, and Japan’s ranks for each are 102, 93, 129 and 37, respectively.

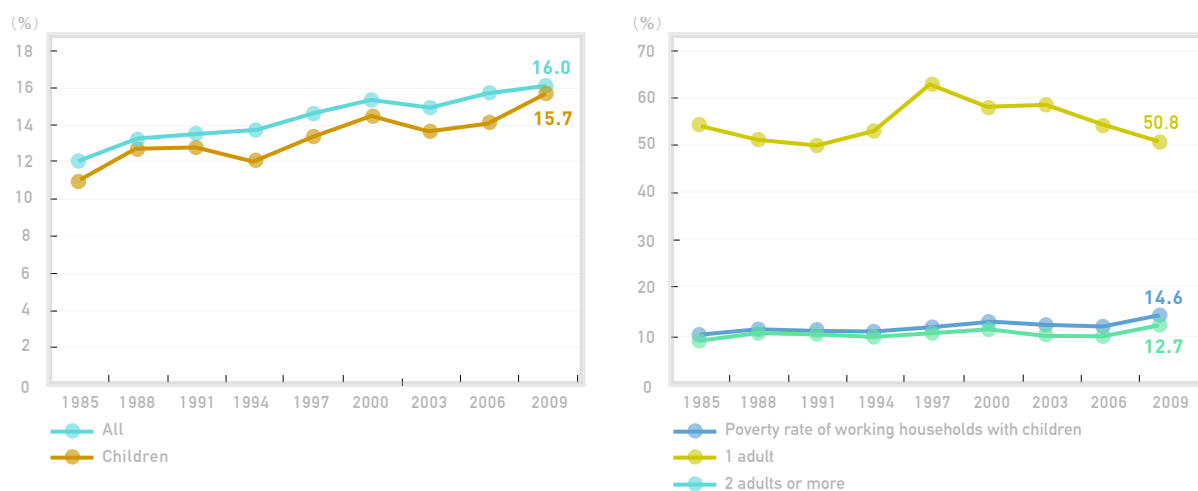


Figure 6: Relative Poverty  
(source: 2014 Children and Youth White Paper)

### - Children and Youth

The 2014 White Paper on Children and Young People shows that relative poverty of children has been on the increase since the mid-1990s and is 15.7% in 2009. Children of households with only one adult are suffering the most, with 50.8% in relative poverty (Figure 6).

Recognizing the severity and magnitude of issues related to children and poverty, a law was passed in January 2014 which enabled children from poor families to receive subsidies for educational costs and other educational support measures. These measures, however, remain insufficient to fully address the issue.

Looking at the youth employment data made available by the Ministry of Health, Labour and Welfare, one finds that in 2011, young people in the state of NEET (Not in Employment, Education or Training) number about 600,000, whereas those with unstable contract jobs are 1.76 million. The unemployment rate for the 15-19 age bracket is 6.4%, 20-24 is 7.0%, and 25-29 is 6.2%, which represent a higher percentage than older age brackets.

### - The Elderly

The 2014 Annual Report on the Aging Society indicates that 25.1% of Japan's total population of 127.3 million is 65 years and older (31.9 million people and increasing).

Compared with other industrialized nations, Japan's rate of elderly population was lower than average in the 1980s and about average in the 1990s, but became the

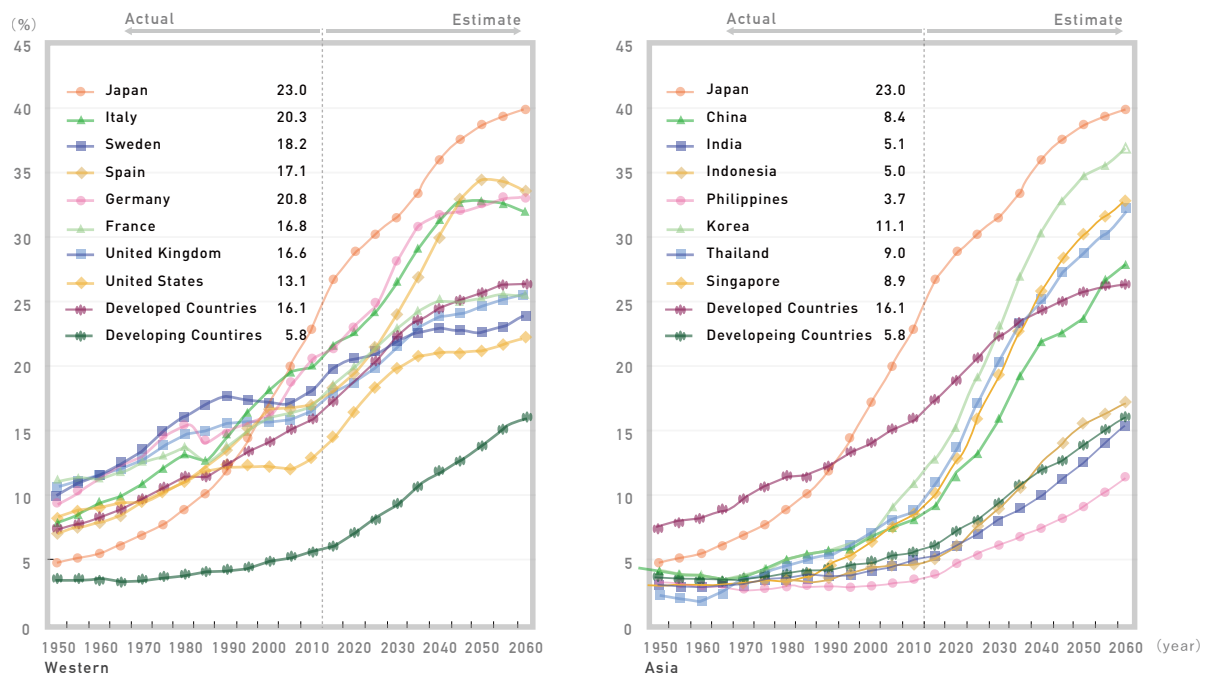


Figure 7: Aging Speed by Country  
(source: 2014 Annual Report on the Aging Society)

highest of all in 2005. It has now reached a level unprecedented in the world's history. In comparing the speed by which the elderly rate doubled from 7% to 14%, it took France 126 years; Sweden 85; Germany 40 and the UK 46, whereas it took Japan only 24 years (from 1970 to 1994). See Figure 7.

Correspondingly, the cost of social security, including pension, medical and social welfare, has been increasing. It reached 107 trillion yen in 2011, and its ratio to GNI is now at 31%, up from 5.8% in 1970. Among these social security costs, pensions and other payments to the elderly amount to 72 trillion, or 67.2% of the total amount. The average per capita income of elderly households is 1,979 thousand yen, which is not so different from the overall average of 2,072 thousand. At the same time, however, in more than 70% of elderly households, 80% or more of the income comes from pension payments.

The annual per capita expenditure is 1,294 thousand yen for households whose head is more than 65 years old, which is greater than the overall average of 1,201 thousand. The savings of these households are 1.4 times as much as the overall average, and these savings are utilized for medical and care-related costs. 2.37% or 690,000 persons of 65 years or older are on welfare.

Figure 8 shows relative poverty by gender and by age. The poverty rate rises as people age, and the rate is higher for women, with the female-male gap increasing in proportion to age.

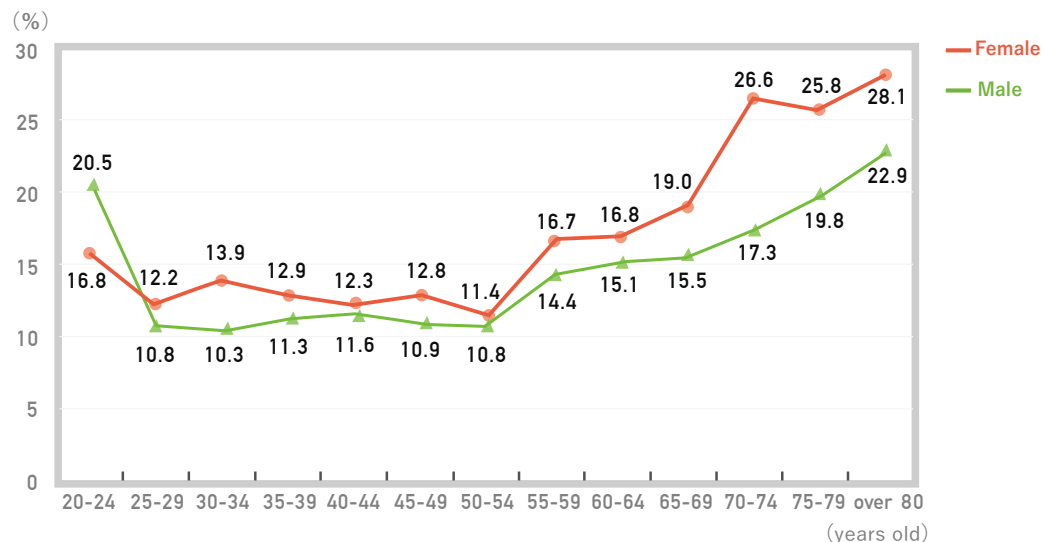


Figure 8: Relative Poverty by Gender and by Age  
(source: 2012 Annual Report on the Aging Society).

### **- Non-Japanese Residents**

As of June 2014, there are approximately 2.08 million legal non-Japanese residents in Japan,<sup>15</sup> which translates to about 1.7% of the entire population. This figure includes ethnic Koreans (approximately 500,000), Chinese and others who can be considered ethnic minorities in Japan. The number of non-Japanese residents has drastically increased since the 1980s as many immigrants from Asia and ethnic Japanese from Brazil and Peru entered the country as foreign laborers or trainees. They are often called “newcomers,” as opposed to “old-comers” who were forcibly brought to the country during the World War II.

While many “old-comers” have aging issues, the “newcomers” tend to suffer from unstable and low-wage labor. Poverty issues among non-Japanese residents are often discussed – one participant in the consultation session who has a support program for non-Japanese residents spoke about cases where single-mothers come to ask for help as they raise their children with almost no savings and irregular income.

It is not always easy to pin down exactly what economic hardships are experienced by non-Japanese residents, as the official statistics that attest to their economic standing exist only sporadically. As an example, a report published by the Ministry of Internal Affairs and Communications indicates that the rate of households on welfare among non-Japanese residents is 3.3 times as high as that of Japanese households.<sup>16</sup>

As another example, there is a survey conducted by the Prefectural Government of Shizuoka in 2009.<sup>17</sup> Of the 1,763 non-Japanese residents in the prefecture who have work permit status, there are 339 (19.2%) full-time workers; 288 (16.3%) are part-time and 566 (32.1%) have a contractor status, while 482 (27.3%) are unemployed. The percentage of unemployed is much higher than the national average for Japanese people, which at that time was 5.4%. Looking at the income level, one finds that 57% of the surveyed non-Japanese residents have a household income of less than 3.49 million yen, which is below the national average for Japanese of 4.06 million yen.

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15 Government statistics (<http://www.e-stat.go.jp/SG1/estat/List.do?lid=000001127507>).

16 Research Report on Welfare ([http://www.soumu.go.jp/main\\_content/000305409.pdf](http://www.soumu.go.jp/main_content/000305409.pdf))

17 [https://www2.pref.shizuoka.jp/all/file\\_download105700.nsf/pages/E205C0CAC77DE971492576F7006BD2C](https://www2.pref.shizuoka.jp/all/file_download105700.nsf/pages/E205C0CAC77DE971492576F7006BD2C)

## ■ 3. Government Policies

Traditionally, since the concept of financial inclusion has not gained currency in Japan, financial inclusion has not been a major policy agenda for the Japanese government. However, there have been a few streams of policies created in response to social issues related to financial inclusion/exclusion.

### 3.1. Response to the “Multiple-Debt” Issue in the 2000s

One of the early discussions related to financial inclusion was the “multiple-debt” issue in the late 1990s-2000s. In 2006, the National Consumer Affairs Center of Japan (NCAC) published a research report on the problem.<sup>18</sup> According to this report, the number of consultations about this issue at consumer centers across Japan in 2004 was 56,469, which was 8.8 times larger than in 1995. Many people went into bankruptcy, or worse, commit suicide because of the burden of multiple debt.

In order to solve this issue, the Japanese government established a taskforce for multiple-debtor problems, and began discussions on a policy framework in 2007. Basic components of this policy framework included: a) strengthening consultation services in local governments and consumer centers; b) promoting “safety net” loans through credit unions, cooperatives and nonprofit organizations; c) enhancement of financial education for the prevention of multiple-debt problems in the K-12 education system; and d) tightening the control of illegal lenders by police and regulatory agencies.

In the area of financial education and literacy, the Central Council for Financial Services Information, for which the Bank of Japan provided secretariat functions, assumed a central role in creating and disseminating comprehensive and systematic financial education curricula and accompanying financial education guidelines for everyone from K-12 students to the retired, and launched initiatives for training teachers and dispatching specialists. Because of these efforts, financial education and literacy programs have become common in junior high and high schools.

On the legal and regulatory front, Moneylending Control Act and Investment Act was revised and Interest Rate Restriction Act was enacted in order to introduce an interest cap of maximum 20% and total volume control in consumer loans (under which one could not borrow more than one-third of one’s total income). After 2010 when the revised Moneylending Control Act became effective, the multiple-debt issue seemed to have subsided.

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18 *Taju Saimu Mondai no Genjo to Taio ni kansuru Chosa Kenkyu (Research Study on the Present Situation of and Possible Measures for the Multiple Debt Issue)*, March 2006. [http://www.kokusen.go.jp/news/data/n-20060322\\_2.html](http://www.kokusen.go.jp/news/data/n-20060322_2.html)



## **3.2. Supporting the Independence of People Living with Poverty**

Parallel to the multiple debt issue, policy reforms were under way in the 2000s to better address the growing demand of people in economic need. For example, Public Loan System for Livelihood Support, a type of public welfare loan program managed by the Social Welfare Council, was revised in 2009 in order to respond to the multiple-debtor policy framework of 2007 and the increasing financial needs of people living with poverty, people with disability and households with people over 65 years old. The revised program provides them with loans for the living expenses during unemployment period, the education fees for their children, extra expenses in time of emergency or illness, etc. In addition, the program provides the retired and the aged with loans for their living expenses in exchange of their real estates used as a collateral. As a result, the program functions as a public affordable lending system in Japan and serves as a safety net for those who face the risk of financial exclusion.

### **▪ 3.2.1. The Law for Supporting the Independence of People in Need**

With poverty and inequality getting more attention in mass media and among the public, the concept of “social inclusion” started to gather traction among policymakers, practitioners and academics. Interestingly, the pair concept of “social exclusion” did not gain similar attention; instead the term “social isolation” was used to portray issues faced by the elderly, who often live alone with few socializing opportunities, as well as homeless people and young adults who live in the city alone. Coupled with related terms such as “muen shakai” (society with no human ties), the focus as a public policy matter has largely been on high suicide rate, mental illness, and occasional violent crimes that are said to be caused by the perpetrator’s social and mental state.

In 2013, in order to alleviate issues of economic hardship and social isolation, the Law for Supporting the Independence of People in Need was enacted. It became effective in 2015. The law strengthened support for people who were not receiving welfare, but had difficulties in identifying other public support programs that met their needs. It is hoped that by making seamless and effective use of both the system of support for the independence of people in need and the welfare system, more people will be able to establish independent livelihoods.

The Law for Supporting the Independence of People in Need provides various support options, but the only two programs classified as mandatory are the “independence consultation support program” (support for consultation related to employment and other forms of independence, and the creation of plans for use in this program) and the “guaranteed residence stipend” (a grant equivalent to rent payments for people in need who have lost their homes due to unemployment). On the other hand, various measures that would be considered indispensable if the intention of the law is to become reality are only categorized as elective. This

includes the "employment preparation support program," which provides the training necessary for employment for a limited term beginning at the daily life independence and social independence stages; the "temporary livelihood support program," which offers temporary housing, food, and clothing for homeless people in need; the "household financial consultation support program," which provides consultation on household budgets, instruction on household budget management, and loan mediation; the "study support program" for the children of families in need, and others. Even the "independence consultation support program", which is one of the two mandatory programs, does not offer financial assistance. By and large, these measures are good in spirit but may lack practical effect, as they are not accompanied by a necessary financial component. Yet, this new legal framework, still in the formative stage of initial implementation with the impending amendment expected in 3 years, is said to bring about substantive changes to the situation of poverty at the local level, as there is a lot of leeway for the local government to make use of this law in initiating innovative approaches to address issues of poverty and social isolation.

#### ▪ 3.2.2. Long-Term Care Insurance System Reform

Since its beginning in April 2000, the long-term care insurance system has established itself as a framework for supporting the peace of mind of the elderly as witnessed by a rapid increase in the number of people using services, especially at-home services. As the system was taking hold, however, the total cost of long-term care insurance drastically increased, and under the present system, insurance premiums will have to rise substantially. For this reason, in order to increase the sustainability of the system, a succession of reforms is taking place, including the establishment of a preventative care system for people with mild disabilities, the revision of grants to facilities in order to make the burden of grants more equal between homes and facilities, and maintaining and increasing quality of service. All in all, these measures were introduced in an attempt to maintain the level and quality of care without increasing the needed financial input.

#### ▪ 3.2.3. Law for the Advancement of Anti-Child Poverty Measures

This law, promulgated on June 26, 2013, aims to advance comprehensive anti-child poverty measures in order to provide an environment in which impoverished children can have a healthy upbringing, while devising equal opportunities for education so that children's futures will not be determined by the circumstances of their birth. As a supplement to this law, the "fundamental principles regarding anti-child poverty measures" were approved by the Cabinet on August 29, 2014. These fundamental principles include "reducing the burden of educational costs," "promoting study support to ward off the chains of poverty," and "livelihood support for guardians and children" among the most vital current policies.

Moreover, as a response to the increase in so-called NEETs, or young people without jobs, Japan has established "regional youth support stations (saposute)" throughout the country. Saposute offer specialized consultation through services like career counseling, methods of self-improvement such as communication training, and support on the path to employment, such as workplace experience at cooperating businesses for young people ages 15 to 39 who are struggling to find work. Saposute were implemented by local nonprofits and companies with a proven record and knowledge of support for young people, with the authorization of the Ministry of Health, Labour and Welfare. Under the 2014 system, they have been established in 160 locations.

As stated above, in recent years, legal systems that may have an impact on financial inclusion have been instituted and reformed, but even if new needs have been identified, the financial circumstances of national and local governments are extremely severe, and the development of effective policies is not sufficiently assured. In the future, despite plans for the suppression of funding for the social safety net, measures need to be crafted for expanding the scope of coverage.

## ■ 4. Private Services and Programs

As the poverty and inequality have emerged as a serious social issue, private (ie., non-public) actors including nonprofit organizations, cooperatives and other social sector institutions have started or strengthened efforts to support people in need with financial inclusion approaches.

### 4.1. Affordable Lending Programs

#### ▪ 4.1.1. Consumer Co-operative's Financial Coaching and Affordable Lending Program

Traditionally, some of the major efforts on behalf of financial inclusion by the non-public sector have come from Japanese consumer co-operatives. There are several pioneering efforts among co-operatives to develop effective financial coaching and affordable lending programs, which serve as a bridging support framework for those in the “service vacuum” between social welfare lending and mainstream financial services. (described in Section 5)

Green Co-op Alliance is one such example. It is comprised of member Green Co-ops based in the Kyushu area and other parts of western Japan, and it has been operating their service since 2006. From 2006 to 2014, they made 28,655 telephone consultation sessions, 16,528 face-to-face consultation sessions, and 2,146 loans. The total amount of loans is 1.24 billion yen, and the loan outstanding as of 2014 is 280 million yen. With professional consultation services and affordable loans with interest rates of 9.5% per year, Green Co-op presents a successful example for other co-operatives.

Following the success of Green Co-op Alliance, Miyagi Co-operative started a model project in 2013 with support from the Japanese Consumer Co-operatives Union (JCCU), the national umbrella organization of co-operatives in Japan. From 2013 to 2014, Miyagi Co-operative conducted 1,601 telephone consultation sessions, 2,006 face-to-face consultation sessions, and 393 loans. The total amount of loans is 360 million yen, and the loan outstanding as of 2014 is 263 million yen.

With the launch of the Miyagi Co-operative model, the JCCU is planning to roll out the same model with member co-operatives nationwide. With more than 570 member co-operatives and 27 million affiliate members, JCCU has a strong potential to provide new financial inclusion services in Japan.

#### ▪ 4.1.2. Affordable Lending Programs for Particular Demographics

Besides consumer co-operatives' efforts, there are at least a few developing efforts for affordable lending targeted to particular social groups. One such example is the Philip Morris Japan (PMJ) Fund to support victims of domestic violence (DV) established in 2007. This is a part of the corporate philanthropy activities of PMJ, and aims to provide DV victims with loans without any interest. Many DV victims who have escaped from their homes to shelters struggle to become independent due to the lack of money. They normally have a hard time accessing social welfare loans or mainstream loans because of their unstable living environment. This is where PMJ Fund can be used. The Fund is managed by the National Women Shelter Network, a nonprofit organization with 67 participating organization across Japan. According to the website of PMJ, the Fund from 2008 to March 2013 provided 371 victims with more than 90 million yen loans in order to support their independence.

Another example is the Entrepreneurship Support Program for Refugee Empowerment (ESPREE). ESPREE is a public interest incorporated association established in 2010 by the Japan Association for Refugees. ESPREE supports refugees who try to start businesses in Japan. ESPREE's methods of support include loans with a maximum of 1 million yen, as well as hands-on support for the business owner. The legal status of refugees in Japan is very unstable, and thus their access to social welfare loans or mainstream financial services is limited. Although the scale of ESPREE is still small (net assets as of June 30, 2015 are about 4.8 million yen, including two long-term loans), this loan support fills a critical gap.

#### ▪ 4.1.3. Other Lending Programs for Those in Need

There are several supporting organizations such as the Community Life Support Center (CLC) headquartered in Miyagi Prefecture, Iwate Life Support Center in Iwate, the Personal Support Center in Miyagi, Seikatsu Support Fund in Tokyo, and Inclusion-Net Kanagawa in Kanagawa. Some of these organizations are affiliated with local consumer co-ops, and they support those in need, including homeless people, single parents, those with physical or mental disabilities, and others. Their main services are consultation, job assistance, and in some cases provision of shelter. Some of them also provide loans for those in need primarily for emergency purposes, such as temporary accommodation costs or medical treatment costs for homeless people.. These supporting organizations contend that personal support services including financial coaching should be combined with affordable lending programs for best results. Many of those in need have mental, physical or family problems, and money-lending programs would not work without complementary support.

## **4.2. Financial Education Programs**

In a Japanese context, financial education is described as “an education that nurtures a proactive attitude toward the attainment of a richer life and better society while understanding how money and finance work, reflecting on one’s life course and society, and developing one’s way of life and value to the society.”<sup>19</sup> Several nonprofit groups are active in providing financial education programs, especially for disadvantaged youths and other vulnerable segments of the population.

### **▪ 4.2.1. The Council of Home Economics Education Promotion for Independence**

Established in 2002, the Council of Home Economics Education Promotion for Independence (the Council) has been working on financial education, mainly focusing on the development of game style teaching materials and curricula for children and those in need. The Council also supports people with disability working in transitional job assistance centers which are providing preparatory support for full employment. The Council holds workshops for them and their parents and train them how to be independent after being fully employed.

### **▪ 4.2.2. MoneyConnection Program by Sodateage-Net**

Another example is MoneyConnection Program by Sodateage-Net. Supported by Shinsei Bank, MoneyConnection aims to prevent young people from becoming NEET (Not in Education, Employment or Training). For this purpose, MoneyConnection program organizes workshops for high schools students and teach them how to earn and manage money. MoneyConnection program also uses game style materials so that it can attract participants’ interest. Since 2006, MoneyConnection has expanded its scale, and in 2011, the program organized workshops in 453 high schools and reached 46,500 students.

### **▪ 4.2.3. Other Support Programs**

Single Mothers’ Forum, a nonprofit organization that supports single mothers in Japan through consultation and networking nationwide, has developed a “survival manual for the preparation of children’s education” and distributed it among single mothers. This manual includes useful information for the preparation of children’s education, especially on how to save money for education and how to use both public and private loan support programs. In addition to this information support, Single Mother’s Forum organizes training workshops for single mothers, and tries to improve the difficult situation of single mothers in Japan.

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<sup>19</sup> Central Council for Financial Services Information, Finance and Financial Education at Schools,

## ■ 5. Service Vacuum

In the preceding sections, women, children and youth, the elderly and non-Japanese residents have been identified as vulnerable to exclusion from financial services. In the review of existing government and private programs, it was made clear that efforts are under way to address a growing need, but that more concerted efforts would be needed to match accelerating demand.

A key finding has been that people in need of financial inclusion are those who are eligible for public assistance programs as well as those trapped in the "service vacuum" between existing systems in Japanese society. Above them are those who have comparatively high income and access to mainstream financial services and public-private loan systems. Below them are those who have low or no income and are eligible to receive public assistance and other social safety net support. This middle demographic is seldom recognized, and is not receiving adequate support. Because of the changing social landscape detailed above, there is an increasing need to respond to this problem. Figure 9 is a visual presentation of the vacuum and new service needs.

This Working Paper has found out that there is an accelerating societal trend in Japan which is expanding the demand for financial inclusion programs. However, it has also found that there is a fundamental shortage of research and lack of data that would empirically support the establishment of particular types of financial inclusion programs.

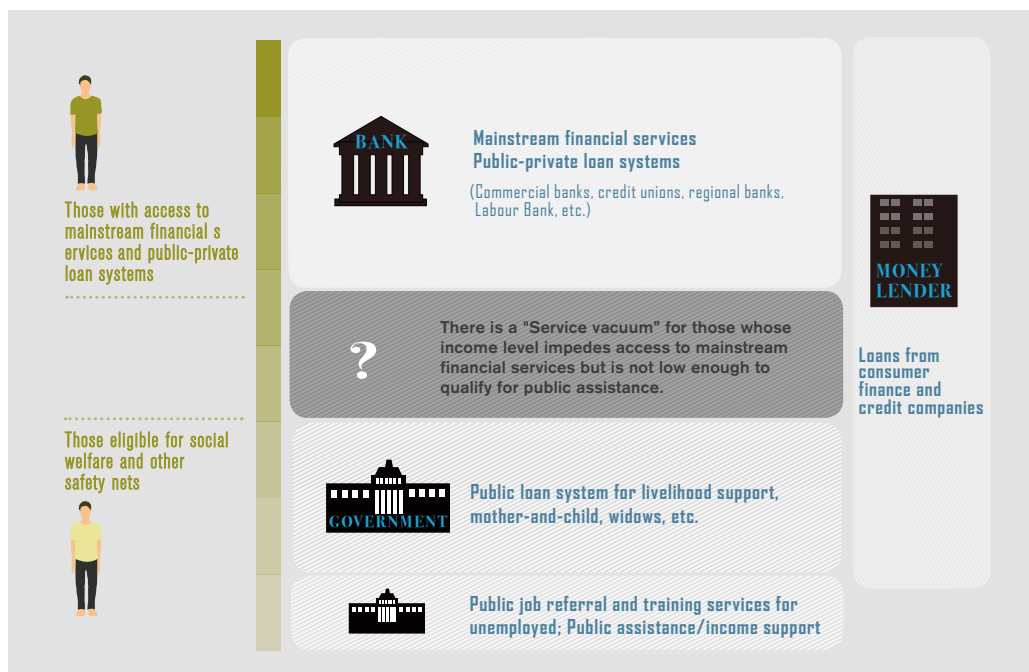


Figure 9: Financial Service Vacuum 20

20 A similar diagram was found in presentation material prepared by the Japanese Consumer Co-operative, and it was modified by the Japan NPO Center.

## ■ 6. Conclusions and Recommendation

### 6.1. Conclusions

This Working Paper has revealed that a growing number of the population of Japan –especially particular social groups- is facing the risk of financial exclusion. It also revealed that there seems to be a financial “service vacuum” for which an increasing gap is being identified between people in need (demand side) and available financial services (supply side). Moreover, the shortage of proper research and data collection is hindering scholars, policymakers and practitioners from collectively formulating measures which would address the issues that are still unfolding.

Based on these observations, it can be concluded that the concept of financial inclusion is useful and applicable as an analytical framework to identify and address a new emerging and enlarging social issue in Japan, especially by way of directing attention to the increasing gap between demand and supply of financial services for given demographics.

### 6.2. Recommendation: Developing Financial Inclusion Programs in Japan

The fact that a growing number of the population of Japan is facing the risk of financial exclusion indicates that there is an increasing need for financial inclusion programs in Japan. In particular, for any interested parties from either the public or the private sector, three focus areas of possible interventions are identified:

#### ■ 6.2.1. Financial Education Programs

In 2005, the Central Council for Financial Services Information published the Financial Education Guidebook: Practical Guide for Schools. In this guidebook, 4 aspects of financial education are mentioned:

- i. Aspects related to life planning and home finance management
- ii. Aspects related to the economy and financial system
- iii. Aspects related to consumer life and prevention of financial troubles
- iv. Aspects related to career education

Financial education programs can be targeted to children, youth or adults, and who to target for what kind of programs needs to be thought out. For adults, financial education would be most useful when provided in conjunction with financial service programs as a supplementary item. For youth, educational programs should serve as a means to prevent future financial exclusion that can be caused by a lack of proper financial knowledge. In particular, high school students are appropriate targets because they are in school, and as such, including financial education in the school curriculum can be handy.



### ▪ 6.2.2. Financial Service Programs

There is a variety of backgrounds among those who are in need of new types of financial services. Among them are:

- Having not enough or the bare minimum of financial means to repay loans and pay rent and utility costs, school tuitions or living expenses (for the latter category, a simple shock – such as a car repair – can cause them to be “thrown into poverty”);
- Having lost a stable job or being unemployed
- Having multiple debts

Financial service is at the heart of financial inclusion programs precisely because it provides finance for those in need. At the same time, however, several interviewees have pointed out that it is important to treat the provision of finance and other services in combination, in order to avoid the money transaction becoming too primary and dominant. Some also stressed that without consultation service, people in debt cannot usually get out of the particular life situation that made them fall into indebtedness to begin with; and that people with multiple debts do not usually speak openly about their financial history, so it requires a lot of patience from those who offer support to wait for them to open their hearts.

Possible other services include:

- Debt consolidation support
- Short and long-term savings opportunities and encouragement
- Home finance management support
- Referral to social welfare and public grants
- Consultation regarding alcohol or gambling addiction
- Consultation regarding family or job issues
- Consultation regarding housing and relocation
- Referral to attorneys or financial consultants

Moreover, in setting up financial services, one needs to remember the importance of instituting safeguard measures to prevent non-repayment and illegitimate use of services.

### ▪ 6.2.3. Research and Awareness-Raising Programs

As this Working Paper has pointed out so far, there is a need in Japan to raise awareness on the concept of and issues surrounding financial inclusion/exclusion. First and foremost, the term financial inclusion/exclusion needs to be introduced into the Japanese vocabulary, and people need to understand the efficacy of using this concept to describe an emerging social issue.

Four related program areas for awareness-raising can possibly be initiated:

(i) Baseline research

As previously mentioned, there is currently a fundamental shortage of research and lack of data that would empirically support the establishment of particular types of financial inclusion programs. More research is needed to accurately diagnose what kind of programs for what segments of the population will most effectively address the emerging needs.

(ii) Expert committee

As a method of awareness-raising, an expert committee – composed of scholars of financial service, financial service providers, and nonprofit leaders who support vulnerable populations - can be established and tasked to work on (a) documenting cases and patterns of financial exclusion; (b) analyzing possible measures to address financial exclusion issues; and (c) communicating effectively to the larger public with succinct explanations on where key issues lie.

(iii) Public forums

Public Forums can be planned and organized to raise awareness. The expert committee can play a pivotal role in providing content. A media outreach can be combined with the publicity of the forum.

(iv) A web portal site

With a possible menu of resources (concepts, analysis of the current situation), data, blogs and discussion forums, a Japanese language portal site (with partial English) that acts as a clearinghouse of information and a discussion forum regarding financial inclusion/exclusion can be established.

All in all, the fact that the concept of financial inclusion/exclusion is still foreign for most of the Japanese public symbolizes the relative lack of awareness of basic human rights in Japan. Access to basic financial service for all needs to be recognized as a building-block of human rights.

This Working Paper has indicated that the proposed programs above – if carried out effectively – will be able to address emerging and pressing social needs in Japan. It is also important to note that the issue of financial inclusion requires long-term thinking, and several interviewees and consultation session participants pointed out that such an approach would be needed.

## **Annex 1:**

### **List of People Interviewed in Interviews and Consultation Sessions**

All the interviews (\*) and consultation sessions (\*\*) for this Work Paper were conducted in January-July 2015. The names and affiliations appear by last name alphabetical order. All affiliations are at the time of the interview/consultation session.

Chiiko Akaishi,\* Single Mothers' Forum  
Akiko Benimura,\* Miyagi Center for Collaboration in Recovery  
Yoshihiro Fujii,\* Graduate School of Global Environmental Studies,  
Sophia University  
Toshiki Fujisawa,\* Iwate Life Support Center  
Aiko Fujita,\* Seikatsu Support Fund  
Kenichi Funagasawa,\* Consumers Financial Co-op  
Shunsuke Hasebe,\* Japan National Council of Social Welfare  
Akemi Horikiri,\* Community Life Support Center  
Masahiro Ikeda,\* Community Life Support Center  
Kyoko Jinnai,\* Council of Home Economics Education Promotion for Independence  
Kazushige Kamesawa,\* Consumers Financial Co-op  
Aya Kawasaki,\*\* Inclusion Net Yokohama  
Masaki Kimura,\*\* Community Youth Bank momo / Aichi Community Foundation  
Momoko Koga,\* Fukuoka NPO Center  
Takashi Koseki\*, School of Business Administration, Meiji University  
Mizuho Maekawa,\* Central Council for Financial Services Information  
Hiroyo Maruyama,\* Single Mothers' Forum  
Kyoko Matsuda,\* Japan National Council of Social Welfare  
Akiko Mukaida,\*\* Women's and Citizens' Community Bank  
Kentaro Ogiue,\*\* Nippon Foundation  
Takuya Okamoto,\*\* Katariba / Social Venture Partners Tokyo  
Ren Onishi,\*\* Independent Livelihood Support Center Moyai  
Yayoi Ozono,\* Yokohama Women's Association for Communication and Network  
Yoko Sakurai,\*\* National Council of Women's Centers  
Hiroko Sasagawa,\* Japanese Consumers' Co-operative Union  
Keiji Sato,\* Personal Support Center  
Akiko Suzuki,\* Inclusion Net Kanagawa  
Manabu Tachioka,\* Personal Support Center  
Hidesato Tadokoro,\* Community Life Support Center  
Shunji Taga,\*\* National Association of Labor Banks  
Tadashi Ueda,\* Japanese Consumers' Co-operative Union  
Yukitaka Wanibe,\* Results Japan  
Kimiko Washio,\*\* Group Fuji  
Jun Watanabe,\* Miyagi Coop Consultation Center for Life and Family Finances  
Akiko Yamauchi,\* Japanese Consumers' Co-operative Union  
Yoshio Yokosawa,\* Consumers Financial Co-op  
Michiko Yukioka,\* Green Co-op

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\* All URLs were accessed in February-March 2015.

Working Paper #1

# FINANCIAL INCLUSION AND JAPANESE SOCIETY

This Working Paper was made possible by a grant from MetLife Foundation.

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