RURAL TOURISM IN JAPAN: THE REGENERATION OF RURAL COMMUNITIES

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ABSTRACT

The change in Japanese rural society after World War II can be understood as a tendency towards stagnation and aging. Some way of revitalizing rural societies is needed. This paper examines the development possibility of rural tourism as a means of revitalization in Japan.

This paper discusses the development of rural tourism in Western Europe, and how it can be encouraged to take root in Japan. The components of Japanese rural tourism are made clear, and the different management styles of farm inns are characterized. Some case studies are introduced of various styles of farm inn currently operating in Japan.

INTRODUCTION

In recent years, rural tourism* has been developing at a great rate in rural communities throughout Japan. Since an act was passed in 1995 to support the use of rural areas for tourism, the Ministry of Agriculture, Forestry, and Fisheries has promoted the establishment of farm inns. The farm inn is a private farmhouse, or an inn built on a farm, which provides visitors with room and board, and gives them the opportunity to participate in the day-to-day activities involved in running a farm, such as planting, harvesting, and fishing. It is strongly oriented towards urban visitors.

More and more, city people are coming to appreciate life in rural areas. They like to experience nature by living in the countryside for a while, and escape the burned-out feeling they get from life in a city. This “reinvigoration” is exactly what people living in cities need these days. At the same time, “revitalization” is a critical need for rural areas in Japan. Nearly all of them suffer from problems such as depopulation, aging of the farm population, and stagnant income growth. Rural tourism is powerful means of solving these problems.

This Bulletin first discusses the development of rural tourism in Western Europe, and then how it can be promoted in Japan. It includes some case studies of typical farm inns, which may serve as a guide for future development.

IMPLICATIONS OF RURAL TOURISM

The Value of Open Spaces

Japanese agriculture is at a critical point nowadays, with the liberalization of the world trade in agricultural products. The traditional view of rural areas as the source of agricultural products is still of course predominant, but a new and different understanding of rural areas is emerging.

Western Europe’s concept of rural tourism is strongly ecological. Governments and farmers have started with a solid basis of respect for animal habitats and the frugal management of natural resources, and have analyzed in detail the intricate dependencies between the farmer and his environment. These ideas should also become part of Japanese agriculture. The idea of an ecologically friendly style of farming is becoming widely accepted. People are insisting that more attention be paid to ecological space and its multifunctional resources.

* Rural tourism: All tourism in rural areas. (Also called green tourism, ecotourism).
Agricultural tourism: Rural tourism based on farm visits and farmstays. (Also called farm tourism, leisure agriculture, agrotourism). Ed.
Keywords: Cash flow, farm inns, Japan, legislation, lodging, restaurants, rural tourism, women's role
This concept has become a core theme in rural tourism in Japan. The Ministry of Agriculture, Forestry and Fisheries has stated that rural areas should be defined, not only as the basis of agriculture and the place where rural people live, but also as “national public property where people can relax and cultivate a calm and harmonious state of mind” (The Association for Green Tourism, established by the Ministry of A.F.F. 1993). This attitude is quite close to that current in Western Europe.

Need for Small-Scale Development

By rural tourism, I do not include the large resort developments built using external capital investment in the late 1980s and early 1990s. At this time, the development of resorts was seen as a way of solving the problem of depopulation in rural areas. In accordance with the Act of Rural Resorts, which was enacted at the same time, resort developments were strongly promoted as bringing benefit to rural districts. However, profits fell drastically with the breakdown of the Bubble Economy. Many of the public agencies who worked with the external capital investors have seen them suffer large financial losses from their investments.

Rural tourism should offer a planned and prepared leisure environment. Planning should take account of the major issues in rural areas: how to deal with financial stagnation, how to plan for the future, how to preserve the wealth of natural species and maintain a beautiful environment. This is an interactive movement which involves different sections of society, but the overall aim is to revitalize rural society. Legislation is needed to support rural tourism and provide funding and infrastructure for farming villages who wish to meet the leisure needs of visitors.

DEVELOPMENT OF RURAL TOURISM IN INDUSTRIALIZED COUNTRIES

Rural tourism seems to have originated in either the mountain regions of Germany or the coastal area of France. There is no precise record of the first farm inn, but it is generally thought that farm inns developed some time after World War II. Farmhouses were seen as healthy, peaceful place where weary veterans could recuperate, and also as places where even poor people could stay and enjoy themselves. Throughout the 1950s, inns grew in popularity and prospered. The number of “Let Rooms” (Lodging) style of farm inns increased, and farmers often converted barns into inns. In the 1960s, “Bed and Breakfast” style inns were introduced, while in the 1970s “Rooms with a kitchen” became popular. Finally, rooms were provided for handicapped people in the 1980s, with special facilities for the blind, people in wheelchairs etc. This progression reflects the changing needs of those traveling to the countryside for leisure. As demand increased, quality followed (Yamazaki et al. 1993).

Rural tourism implies the reevaluation of the countryside as a place for health recovery, and as a comfortable place where people can relax and get back a sense of calm and peace of mind. Furthermore, the rural people who operate rural tourism are contributing to the society by fostering those people who visit rural areas.

Mr. Yoshihiko Oyama says, “What is Green Tourism? To develop firmly but without large-scale development; to optimize the best use of the resources in the rural community; to attach importance to heart-to-heart communication; this is somewhat to rear a society without destroying the original nature of rural society” (Oyama 1997).

POTENTIAL FOR RURAL TOURISM IN JAPAN

A Way of Revitalizing Rural Communities

As we have seen, rural tourism is an important asset in the fight to improve the current critical situation in which Japanese agriculture and rural communities find themselves. Rural tourism developed spontaneously and advantageously in European rural communities. This section of the Bulletin discusses how the European experience could be adapted to the conditions of Japan. First, I would like to explain my own understanding of rural tourism.

I feel that rural tourism is a means for rural communities to lead the rest of us to some kind of spiritual activation, while simultaneously taking action to stimulate their own prosperity. This is completely different from the idea of big companies investing vast amounts of capital to develop sprawling resorts in rural areas, which is in fact the antithesis of rural tourism because it displaces rural communities rather than invigorates them. While agriculture should always be the main support of rural communities, rural tourism as a sideline should provide more income and stability to farm households by adding new business opportunities. As rural tourism
develops, rural people themselves will come to realize the true value of their own way of life.

**Development Conditions for Rural Tourism**

Firstly, as in Europe, it is women in Japan who are primarily responsible for the day-to-day running of tourism business. The efforts of farming women to achieve independence have become a major movement. In order to increase their incomes, many groups of farming women are selling agricultural products direct from the farm instead of to wholesalers. Other groups are attempting to run food processing factories, to earn more money by adding value to produce. The Japanese farming women’s movement has three principle aims (Arahi 1995):

- To redefine women’s role in society and deny traditional gender roles for family members;
- To increase the number of their friends and acquaintances; and,
- To increase the family income.

Second, from the viewpoint of the whole rural community, including women, the revitalization of rural life is an important reason to develop rural tourism. Confronting serious issues such as depopulation, aging of the rural population, and stagnation of the rural economy, farm people are working to revitalize their rural communities, in cooperation with local authorities.

Their efforts manifest themselves in a variety of ways: Discovering and developing resources unique to a particular area; increasing awareness of the natural beauty of the rural areas to encourage sightseeing; creating products and/or processes unique to a particular area; reviving the local cultural resources such as traditional festivals. What ties all these ideas together is that they all develop underlying indigenous resources and encourage sightseeing by visitors from outside. In this respect, what needs to be done to attract urban tourists to the rural areas as sightseers is in fact being accomplished.

The Japanese Ministry of Agriculture, as well as many local authorities, has been reviewing government policy with regard to rural tourism. However, the measures taken to date have not been enough to really promote rural tourism in Japan. For example, “Vacations in a farmer’s house” in Germany are subsidized by the government, and are given special legal privileges. Unfortunately, Japan has not yet instituted this level of support.

Moreover, many other regulations which are already in place unintentionally make the opening of farm inns difficult. For instance, fire safety regulations, while they are well intentioned, can be difficult, to implement in rural dwellings. Permits under the Food Hygiene Act to supply cooked meals are not easy to obtain when catering is on such a small scale. Furthermore, it is generally forbidden to operate any business other than agriculture on any land registered for this purpose. This all adds up to an unfavorable legal climate in Japan for rural tourism. European support of rural tourism can be held out as a model for Japan. We need to work in earnest to change our legal system to facilitate the growth of rural tourism in Japan.

**COMPONENTS OF RURAL TOURISM**

Rural tourism, as a type of rural development, has of three main components (Fig. 1).

- Diversification of farm activities;
- Contributing to the development of vacation sites; and
- Utilizing human resources.

**Diversification of Farm Activities (Farm Inns, Restaurants etc.)**

This involves building facilities such as farm inns and restaurants, and also developing agricultural products and folk arts which are specialties of the region. The main purpose is to increase farmers’ incomes, so that farm families can prosper in areas where farming business is slow. They do not need to serve expensive traditional meals such as “Sashimi” and “Tempura” as ordinary inns do, but only need to provide a room to sleep in and simple meals. The farmers’ labor input should be minimized.

In developing rural tourism, ties between various local industries are very important. People visiting rural areas require accommodation. This need creates farm inns. The farm inns require various stores to supply food for the guests. They also need a linen service that washes sheets and towels. An increase in the number of visitors creates a need for souvenirs, and demand for more restaurants on a larger scale. The effect on the economy spreads throughout the area, creating a partnership of local businesses.
Developing Vacation Sites

In Europe, governments play a major role in developing vacation sites, based on regional plans to avoid any adverse impact. In Japan, while camping grounds and lodging facilities are prepared where the owners feel they will be successful, they are often not fully utilized. Auto-camp sites, for example, may be prepared without a correct understanding of the real needs of visitors from cities, and sometimes operate at a loss. Preparation of vacation sites must be based on an understanding of what city people look for in rural areas.

Utilizing Human Resources

An example of the third aspect, utilization of human resource, is events in England called “Weekend Holidays”. Visitors to these attend craft lessons, instructed by professionals in the field. The whole community works together to welcome visitors from cities.

Holidays on this model are very feasible for Japan. Many people in cities feel nostalgia for traditional plays, for example. Rural tourism can introduce children and adults to an area’s traditional plays and culture. Participation by the older generation of farming people can be a wonderful experience, both for them and for the visitors.

Rural Resources

The Landscape

The first resource is the living landscape. This is very pleasing to city people who are surrounded by concrete every day. Local attractions such as woodlands, historic buildings and beautiful scenery which changes with the seasons should be widely publicized.

The second resource is the presence of animals and plants. City people generally love to
come into contact with animals. They feel the warmth of life when they hold small animals in their arms. Children are fascinated by cows and calves, and love to feed them. The educational effect of coming into contact with animals is widely felt, and recently it has also been found to have a therapeutic effect on people who are depressed.

Special products of the area, such as wild mushrooms, other edible wild plants, seafood, and pickles are the third resource. Specialized regional cooking is another attraction that visitors look forward to. Food Hygiene Laws restricting the sale of dairy products, for example raw milk and ice cream, should probably be relaxed for farm sales.

Finally, there is the traditional culture of a specific area. Historic buildings such as temples and shrines, as well as traditional agricultural tools and buildings, are part of a cultural heritage which appeals deeply to visitors. Participation by visitors in regional festivals would be a wonderful experience. Another memorable moment would be when they listen to old tales and think of the old days in the village.

Motivation

The interest of farming women in rural tourism is considerable. It seems as if their motives are social rather than economic. Their answers to a questionnaire on their objectives in starting a farm inn showed that they were more interested in meeting people than in making a profit.

The initial investment for a farm inn varies from US$100 to more than US$100,000. The motivation of rural women will be a strong, positive force in the development of rural tourism, and should be recognized as such by government and cooperative organizations. Training and education must be provided so that this motivation is expressed in a profitable and fruitful way.

Management of Farm Inns

Four different management styles can be used in the running of farm inns.

Privately Funded and Privately Managed

For this type, individual farmers manage their own business. It is found largely in the Hokkaido area of Japan. The advantages are flexibility in management, since the farmer can take decisions independently, and direct contact with visitors. The difficulties lie in making efficient use of an area’s resources, and the financial burden of the initial investment.

Individual farmers who established this type of farm inn may have creative business ideas of their own. For example, visitors may be given the opportunity of experiencing life in a mountain village, a fruit harvest, or casting a net to catch fish. One type of inn has kitchen facilities so that visitors can cook their own meals. Some inns have a membership system, as a way of by-passing restrictions on rented accommodation and restaurant meals.

Publicly Funded and Managed

This type of farm inn is funded and operated by a public organization or an agricultural cooperative. One disadvantage is that there is less contact between visitors and local people. Furthermore, facilities tend to be standardized, which makes this type of farm inn less attractive to visitors.

Publicly Funded and Privately Operated

Farm inns of this type use subsidies for the initial investment, but are run by private individuals on community basis. They are advantageous in utilizing regional resources, in creating a sense of solidarity among rural people and in promoting contact with visitors, while less capital is needed to start the business. However, those operating the business need to come to an agreement with local residents at a very early stage of the planning.

This type seems the most suitable type of Japanese farm inn, because most Japanese rural communities maintain strong community ties, and such communal activities are acceptable for their inhabitants.

Jointly Funded and Operated

A type of farm inn which is jointly funded and operated by people from both cities and rural villages seems feasible for rural Japan, but there as yet no concrete example. It is likely to be based on a membership system, and the city people who provide most of the investment would be the members. Since the users of the facility would be members rather than the general public, a farm inn of this kind would not need to meet the requirements of the Law Governing Inn/Hotel Business.

Which type of farm inn is best depends on the regional situation and the need and ideas of the individual farmer, but it is helpful if organizations concerned with rural tourism understand the
advantages and disadvantages of each type (Arahi 1994).

**LEGAL RESTRICTIONS ON FARM INNS**

In order to open a farm inn, various permits are required. The particular permit needed depends on the size of the inn and the style of its business operations, but permits cover the following basic items.

**The Site**

What kind of site will the building be on?
- Needs approvals from selected districts (according to the act covering National Parks, Act of Conservation, City Planning Law, Agricultural Land Law, Act Covering Districts Registered for Agricultural Promotion etc.).

**What Kind of Building?**

When a new building is constructed, should any of the listed conditions below apply, a building permit must first be obtained from the Building Inspector before construction can begin. The same requirement applies if someone wishes to remodel part of his home or construct a separate building on the same lot.

**Conditions:**
- Total floor area is 100 m² or more.
- The building is made of wood with three or more stories, and the total floor area is 300 m² or more.
- The building is made of materials other than wood, with two or more stories, and a total floor area of 200m² or more.

**Whether Meals are Provided**

If meals are served to guests as part of a lodging business, a business permit is required under the Law Covering Inn/Hotel Business:
- The permit business operations of a Farm Inn are basically those of a “Flop-house”, according to the Law Covering Inn/Hotel Business. What this means is a lodging shared by a number of guests which meets the following conditions:
  - The total floor area is 33 m² or more per person,
  - The lodging is properly equipped for guests’ needs, with a good bathroom of appropriate size.
- It should have proper ventilation and lighting.
- There are no more than five guest rooms per inn.
- Should meals be served to guests, the inn must obtain a Restaurant Certificate under the Food Hygiene Law, and at least one of the staff must get a Certificate for a Person Responsible for Food Hygiene. (It is relatively easy to get this certificate, compared to some others). Furthermore, if the inn is selling processed foods or dairy products, or producing meat products, a Certificate of Food Production is required, and one of the staff responsible must get the Certificate for a Manager Responsible for Food Hygiene. This certificate is difficult to obtain.

**Other Essential Items**

- The farm inn must have a properly equipped front desk, where guests are received and where they register.
- There must be a kitchen which satisfies the Food Hygiene Law.
- Fireproof materials must be used for the ceiling and walls of the kitchen, which must reach a certain size as required by law.
- There must be emergency stairs (if more than one story).

**How to Open a Farm Inn**

Before beginning to construct and run a farm inn, the following procedures must be followed. The steps listed below are based on an actual example from one Prefecture:

Investigate whether the land is specified as a special district.

Bring a blueprint and consult the Public Health Center and the Local Administrative Office about the current layout and a proposed floor plan.
Petition the Building Inspector (usually on the staff of the City Administration or the Local Administrative office) to confirm the proposed building construction.

Submit a notice based on Act of Prevention of Water Pollution.

Start building constructing after receiving Confirmation of Building Construction.

Submit a notice of fire-fighting equipment to the fire station.

Receive a certificate of Inspection of fire-fighting equipment from the Fire Department.

Submit a certificate of completion to the Building Inspector after finishing construction.

Receive a certificate of Building Inspection from the Building Inspector.

Submit a notification to the Fire Department that fire-fighting equipment is ready for use.

Submit a petition of Conformance based on fireproofing regulations.

Receive an approval of Conformance from the Fire Department.

If using well water, consult with the Public Health Center and receive an inspection of water quality.

Petition Public Health Center for approval to operate an inn.

Petition for approval of Business Certificate based on the Food Hygiene Law.

If selling processing foods such as jam, petition Public Health Center for approval of Canned or Preserved Food Production.

Receive approval from the Public Health Center after completing site inspection and carrying out any improvements recommended.

Obtain the certificate of Responsible Person for Food Hygiene.

Start Farm Inn

SOME EXAMPLES OF FARM INNS IN JAPAN

There is not yet a guide book or manual for those operating farm inns in Japan. Most farm inns are operating on a very small scale, but even so, it is still desirable that an owner should plan good management from the beginning. It is essential to consider ways of raising capital, what profits to expect, and labor allocation before beginning operations. Since most farm inns will probably be run as a sideline, allocation of manpower is an important consideration.

The following are three typical kinds of farm inn (each example represents six or seven actual inns which were studied in 1997) (Arahi et al. 1998).

Remodeled Farm Inns which Provide Full Board

The first example is a small farm inn (two rooms, four occupants* in each room) which was achieved by remodeling part of the main farmhouse. Investment for this came from personal savings (US$9,615) and a loan of US$38,462. The bathroom and toilet are shared by everybody. Two meals are served to guests (breakfast and the evening meal. The breakdown of the total expenditure is US$15,385 for remodeling, US$23,077 for plumbing, US$3,846 for electrical work, and US$5,769 for miscellaneous supplies. (The cost of remodeling turned out to be higher than the estimated cost).
**Investment and Loan**

- Total cost: US$48,077
- Amount borrowed: 80%
- Interest rate: 2.2% (1997)
- Term: 15 years (three-year grace period)
- Financed by commercial bank
- Repayment terms: Fixed payment of US$38,462 per annum for 15 years

Assuming the room rate is US$38.50 per person per night (including two meals a day), making a total of 400 guests per year, and assuming that both rooms are occupied all year, the total income will be US$15,400 per year (Table 1). Extra income of US$8.00 per person is expected from the sale of farm produce. As far as possible, the farm’s own produce is used for the guests’ meals. All labor is provided by the farm family — there are no employees.

**Cash Flow**

Table 1 shows the costs and returns of this farm inn. Since the loan repayment does not start until the 4th year, the actual profit is larger than the one shown. A characteristic of this type of farm inn is that it shows a continuous profit. However, the labor input, including the cooking of meals, is very high. Much of the profit could be considered wages for the labor. An important aspect of this type of farm inn is how to distribute available labor between the two businesses of farming and the inn. They also need to plan how to increase customer satisfaction, since they have restricted their investment into the facilities (e.g. no separate bathroom for guests).

**Inn with Low-Cost Detached Rooms with Kitchen (Self-Catering Style):**

This example used a loan of US$38,462, plus personal savings amounting to US$23,077, a total of US$61,539. Payment plan is shown in Table 2. Two small rooms were built on the property, with space for four* occupants in each room. Construction was designed so as to keep costs as low as possible, but in each room, a kitchen, bathroom and laundry. The new building cost a total of US$61,539 of which construction costs were US$38,462, plus US$19,231 for plumbing, US$3,846 for electrical work and US$9,615 for miscellaneous supplies.

**Initial Investment**

- Total cost of new building: US$61,539
- Loan: US$38,462
- Interest rate: 2.2% (1997)
- Term: 15 years (three-year grace period)
- Financed by commercial bank
- Repayment terms: Fixed annual payment of US$38,462

**Management of Farm Inn**

The room rate was set at US$30.80 per person per night, which is relatively high for Japan but reflects the strong demand for Western-style facilities. Assuming both rooms are occupied, the expected number of guests per year is 400, the same as in the previous example. Extra income is anticipated from selling fresh produce, special events, and from renting the facility during the day-time for private parties. The inn does not serve meals, so there are no costs or returns for food. All labor is supplied by the farm family — there are no full-time or part-time employees.

**Cash Flow**

The cash flow for this type of farm inn is shown in Table 2. There are no food expenses, the utility cost is higher to cover cooking by guests, and sales are lower since the inn does not serve meals. The business should bring a higher return than that shown in Table 2, since there is no payment on the loan for the first three years. From the fourth year, the net profit is US$76 per year, but this will increase because the interest payment gradually decreases. The profit margin is small, but the labor input is also small. In managing this type of farm inn, the time chosen to renovate the facility is very important.

**Inn Serving Two Meals a Day, with Higher-Cost Detached Rooms:**

This final example is a new detached farm inn built on the property and serving two meals (breakfast and dinner). Guests may cook their own meals if they prefer, since each room has its own kitchen and bathroom. A total of US$96,154 was invested, of which US$76,923 was borrowed from a bank, while personal savings contributed the remaining US$19,231. The new building contains four rooms, with four occupants in each room. The

*Guests in traditional Japanese inns sleep on quilts spread out on tatami mats, rather than in Western-style beds. The quilts are folded away during the day.*
Table 1. Cash flow of “small scale farm inn with two meals”

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Room charge</td>
<td>US$15,400</td>
<td></td>
</tr>
<tr>
<td>Farm produce, room hire for special events</td>
<td>3,100</td>
<td>US$38.5 per person x 400 (average of 33 people per month)</td>
</tr>
<tr>
<td><strong>Total (A)</strong></td>
<td>18,500</td>
<td></td>
</tr>
<tr>
<td><strong>Food etc.</strong></td>
<td>4,255</td>
<td>Items for meals and food items sold as souvenirs (23% of total sales)</td>
</tr>
<tr>
<td><strong>Expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business tax</td>
<td>280</td>
<td>Property tax</td>
</tr>
<tr>
<td>Utilities</td>
<td>1,540</td>
<td>Gas, electricity and water</td>
</tr>
<tr>
<td>Communication</td>
<td>230</td>
<td>Telephone and postage</td>
</tr>
<tr>
<td>Advertisement</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td>460</td>
<td>Promotional gifts, etc.</td>
</tr>
<tr>
<td>Insurance</td>
<td>230</td>
<td>Insurance premium</td>
</tr>
<tr>
<td>Maintenance</td>
<td>310</td>
<td></td>
</tr>
<tr>
<td>Expendable</td>
<td>770</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,900</td>
<td>Refer to the note below for calculation</td>
</tr>
<tr>
<td>Salary, wages</td>
<td>-</td>
<td>No employee</td>
</tr>
<tr>
<td>Social security tax</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>Interest payment</td>
<td>840</td>
<td>Decrease after 5th year</td>
</tr>
<tr>
<td>Sanitation</td>
<td>460</td>
<td>Linen service, sewage system</td>
</tr>
<tr>
<td>Miscellaneous, etc.</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses (B)</strong></td>
<td>13,215</td>
<td></td>
</tr>
<tr>
<td><strong>Income (C) = (B) - (A)</strong></td>
<td>5,285</td>
<td></td>
</tr>
<tr>
<td><strong>Tax (D)</strong></td>
<td>528</td>
<td></td>
</tr>
<tr>
<td><strong>Loan payment (E)</strong></td>
<td>3,205</td>
<td>Starts from 4th year</td>
</tr>
<tr>
<td><strong>Profit/Loss (F) = (C) - (E)</strong></td>
<td>1,552</td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation (G)</strong></td>
<td>2,900</td>
<td></td>
</tr>
<tr>
<td><strong>Available amount of operating (H) = (F) + (G)</strong></td>
<td>4,452</td>
<td></td>
</tr>
</tbody>
</table>

* Calculation of depreciation

- Annual depreciation of US$38,462 building: 22 year recovery period, 10% salvage value 
  \[\text{US$38,462} - \left(\frac{\text{US$38,462} \times 10\%}{22\text{ years}}\right) \approx \text{US$1,600}\]
- US$7,692 equipment (kitchen appliances, air conditioner, etc): 6 year recovery period, 
  10% salvage value \[\text{US$7,692} - \left(\frac{\text{US$7,692} \times 10\%}{6\text{ years}}\right) \approx \text{US$1,100}\]
Table 2. Cash flow of farm inn with low-cost detached rooms with a kitchen.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
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<tr>
<td>Room charge</td>
<td>US$12,320</td>
<td>US$30.00 per person x 400</td>
</tr>
<tr>
<td>Farm produce, room hire for special events</td>
<td>3,100</td>
<td>(average of 33 people per month)</td>
</tr>
<tr>
<td>Room hire for parties during day</td>
<td>400</td>
<td>US$ 8.00 per person x 50</td>
</tr>
<tr>
<td><strong>Total (A)</strong></td>
<td>15,820</td>
<td></td>
</tr>
<tr>
<td><strong>Expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food etc.</td>
<td>2,690</td>
<td>Materials for processed food, etc. (17% of total sales)</td>
</tr>
<tr>
<td>Business tax</td>
<td>280</td>
<td>Property tax</td>
</tr>
<tr>
<td>Utilities</td>
<td>3070</td>
<td>Gas, electricity and water</td>
</tr>
<tr>
<td>Communications</td>
<td>230</td>
<td>Telephone and postage</td>
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<tr>
<td>Advertisements</td>
<td>150</td>
<td></td>
</tr>
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</tr>
<tr>
<td>Insurance</td>
<td>230</td>
<td>Insurance premium</td>
</tr>
<tr>
<td>Maintenance</td>
<td>380</td>
<td></td>
</tr>
<tr>
<td>Expendable</td>
<td>760</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,900</td>
<td>(see note below)</td>
</tr>
<tr>
<td>Salary, wages</td>
<td>-</td>
<td>No employees</td>
</tr>
<tr>
<td>Social security tax</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>Interest payment</td>
<td>840</td>
<td>Decrease after 5th year</td>
</tr>
<tr>
<td>Sanitation</td>
<td>460</td>
<td>Linen service, sewage system</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses (B)</strong></td>
<td>13,240</td>
<td></td>
</tr>
</tbody>
</table>

Income (C) = (B) - (A)  

Tax (D)  

Loan payment (E)  

Profit/loss (F) = (C) - (D) - (E)  

Depreciation (G)  

Available operating capital (H) = (F) + (G)  

* Calculation of depreciation

- Annual depreciation of US$38,462 building: 22 year recovery period, 10% salvage value  
  \[ US$38,462 - (US$ 38,462 \times 10\%) / 22 \text{ years} \] \( \approx \) US$1,600
- US$7,692 equipment (kitchen appliances, air conditioner, etc): 6 year recovery period,  
  10% salvage value \[ US$7,692 - (US$7,692 \times 10\%) / 6 \text{ years} \] \( \approx \) US$1,100
Table 3. Cash flow of “relatively large farm inn with two meals”

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Room rate</td>
<td>US$36,800</td>
<td>US$46.00 per person x 800 (people (average of 67 people per month)</td>
</tr>
<tr>
<td>Farm produce, room hire for events</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Room hire for parties during day</td>
<td>800</td>
<td>US$8.00 per person x 100</td>
</tr>
<tr>
<td>Total (A)</td>
<td>4,460</td>
<td></td>
</tr>
<tr>
<td><strong>Expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food etc.</td>
<td>8,480</td>
<td>Items for meals and food items sold as souvenirs (19% of total sales)</td>
</tr>
<tr>
<td>Business tax</td>
<td>460</td>
<td>Property tax</td>
</tr>
<tr>
<td>Utilities</td>
<td>3,850</td>
<td>Gas, electricity and water</td>
</tr>
<tr>
<td>Communication</td>
<td>770</td>
<td>Telephone and postage</td>
</tr>
<tr>
<td>Advertisement</td>
<td>770</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td>700</td>
<td>Promotional gifts, etc.</td>
</tr>
<tr>
<td>Insurance</td>
<td>230</td>
<td>Insurance premium</td>
</tr>
<tr>
<td>Maintenance</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>Expendable</td>
<td>2,300</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Salary, wages</td>
<td>6,920</td>
<td>¥100,000 x 3 workers x 3 months/year</td>
</tr>
<tr>
<td>Social security tax</td>
<td>230</td>
<td></td>
</tr>
<tr>
<td>Interest payment</td>
<td>1,690</td>
<td>Decrease after 5th year</td>
</tr>
<tr>
<td>Sanitation</td>
<td>920</td>
<td>Linen service, sewage system</td>
</tr>
<tr>
<td>Fees</td>
<td>380</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses (B)</strong></td>
<td>34,380</td>
<td></td>
</tr>
<tr>
<td>Income (C) = (B) - (A)</td>
<td>10,220</td>
<td></td>
</tr>
<tr>
<td>Tax (D)</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Loan payment (E)</td>
<td>6,410</td>
<td>Starts from 4th year</td>
</tr>
<tr>
<td>Profit/loss (F) = (C) - (D) - (E)</td>
<td>2,810</td>
<td></td>
</tr>
<tr>
<td>Depreciation (G)</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Available amount of operating (H) = (F) + (G)</td>
<td>7,810</td>
<td></td>
</tr>
</tbody>
</table>

* Calculation of depreciation

* Annual depreciation of US$38,462 building: 22 year recovery period, 10% salvage value
  [US$38,462 - (US$38,462 x 10%) / 22 years] = US$1,600
* US$7,692 equipment (kitchen appliances, air conditioner, etc): 6 year recovery period, 10% salvage value.
The room rate is US$46.00 per person per night, which includes the cost of two meals. Construction costs were US$46,154, plus US$30,769 for plumbing, US$7,692 for electrical work, and US$11,539 for miscellaneous supplies.

**Investment**

- Total cost: US$96,154
- Amount borrowed: 80%
- Interest rate: 2.2% (1997)
- Term: 15 years (three-year grace period)
- Financed by commercial bank
- Repayment terms: Fixed annual payment of US$76,923

The room rate was set at US$46.00 per person per night, including the cost of two meals. The expected number of guests per year is 800, assuming all four rooms are occupied with four occupants per room. Extra income is expected from the sale of fresh produce, and from hiring the rooms for special events such as parties during the day. The inn normally serves two meals (breakfast and dinner). Three part-time workers are employed for three months a year over the summer, if business is good.

**Cash Flow**

An inn with a similar management style to the first example given above but twice the capacity does not necessarily bring in extra income, because the expenses are also higher. As a result, there is not much difference in the net profits of the smaller and larger inn. However, the labor input of the manager can be reduced by hiring part-time workers during the busy season.

**CONCLUSION**

Some typical farm inns are presented above, to show the different scales of management in Japan. In all cases, profits were fairly low in relation to the initial investment. Profit is, of course, a very important factor for a new business, but it is not the determining factor for farm inns in Japan. They have a non-economic reason for existing, which is to encourage people to appreciate the value of rural societies.

Rural tourism is important for the development of farming villages of the future. There are several ways in which this movement could be encouraged in Japan.

There needs to be an increase in the number of visitors to rural areas. The government is trying to reduce the number of working hours to create more vacation time for people in cities. However, Japanese people, like other Asians, have a strong work ethic, and it is not easy to persuade them to prolong their vacations.

The quality of lodging facilities must be improved. Furthermore, visitors should be taught to value the pure and honest humanity of the people in rural areas. Hospitality which reflects the distinctive nature of a rural communities should be studied and promoted among farmers.

As shown in the examples, the profit margins in rural tourism are not large. Subsidies from the government are very important to relieve farmers of a heavy financial burden which damages their business. The government needs to promote special rural tourism programs, along the lines of “Vacation in a farmhouse” (Urlaub auf dem Bauernhof) in Germany, and “Welcome to the farmhouse” (Bienvenue à la ferme) in France. At the same time, it is also important to ease various legal restrictions which make it difficult for farmers to initiate new businesses. In Japan, the category of “flopouse” is approved in Building Basic Law, but this category is not accepted in the Law of Inn/Hotel Business. Therefore, some farmer must make the same efforts as an ordinary hotel to get legal permission. Also, the high standards needed for a permit mean a large initial investment by the farmer. In promoting farm inns or rural tourism and developing rural areas, we must consider new legislation for this type of business.

**REFERENCES**


DISCUSSION

One participant asked about the taxation of farm inns, and whether there are special exemptions for small restaurants on farms, as opposed to ordinary commercial restaurants. Mr. Arahi answered that in Japan, the Law covering Inn/Hotel Management also covers any farm inn which serves meals to guests, regardless of its size. Taxation is also on the same basis as commercial establishments, and no exemption is made for farm incomes. Ordinary commercial restaurants and farm inns pay the same rate of tax.

There was discussion of whether farm inns should be subjected to the same regulations and restrictions as large establishments. Mr. Arahi pointed out that in Japan, farms inns and commercial hotels are all subject to the same management laws and regulations. No exceptions are made for small farm enterprises. Some participants felt that this is unfair, and that regulations should be adapted to meet the special needs of a small family business. Others felt that the purpose of regulations covering hygiene, safety etc. is to protect customers. Regulations for small family inns etc. should be based on the needs of the customers, not those of the farm family.

Mr. Rousseau said that in France, commercial restaurants have been taxed on a different basis than farm inns for the past 20 years, and have been paying higher taxes. He felt that this is unfair, and that restaurants, farm inns and other rural tourist facilities are complementary rather than competitive. Tourists are attracted to the countryside by the facilities offered by the tourism industry as a whole. Different enterprises should work together to improve the level of rural tourism and increase the number of clients.