

Agricultural-Industrialization Financing System Based on the Perspective of Cooperative Economy

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Abstract:

Having analyzed development of Chinese agricultural industrialization and the rural financial system, this study explored the relationship between cooperative economy and agricultural industrialization financing system. In light of current development of Chinese agricultural industry, this study proposed to construct an agricultural industrialization financing system with cooperative finance as the main body, policy-oriented finance and commercial finance as both wings and private finance as supplementary.

Keywords: Cooperative economy; Agricultural industrialization; Financing system

1. Introduction

In advanced countries with an early origin and some emerging markets, agricultural industrialization has been basically established as well as sound agricultural financing system. With the deepening of industrialization and rise of farmers' income, financing system also gradually develops towards commercial financial-based marketization from coexistence of policy finance, cooperative finance and commercial finance. As a contrast, Chinese agriculture has long followed the decentralized,

self-employed and self-sufficient development path. It was only in 1990s that agricultural industrialization was proposed as a strategy in Shandong Province, where good economic effects was achieved. Since the mid-1990s, agricultural industrialization is paid great concern from the government and promoted around China as an economic development strategy. It is the orientation of Chinese agriculture to transform from the tradition to modern, the effective way for farmers to acquire wealth and the only way to break the dual structure of urban and rural areas for the achievement of overall well-off society.

With over decade of hard work and development, especially after joining the WTO, Chinese agricultural industrialization has developed from farmers' spontaneous action to government organized one, from specific agricultural field to all fields; from economically developed coastal areas to a large part of China. However, whether in view of China or elsewhere, history or practical needs, the realization of agricultural industrialization is inseparable from financial support (Qiu Kun et.al, 2008). It is just based on this, since 2004, NO.1 Document of the Central Government continues to attach importance to agricultural and rural finance, emphasize the development of agricultural industrialization and rural financial system reform. Over the

decades, rural financial institution has gained many new ideas and experiences in supporting agricultural industrialization, receiving good results. It is a highlight of rural financial institution to offer financing for leading enterprises. However, the relationship between rural financial institution and agricultural industrialization is far from inseparable. In most rural areas of China, agricultural industrial development is facing financing bottlenecks, which needs the effective support from new financing system. In this respect, many problems remain to be reformed and innovated.

2. Relationship between cooperative economy and agricultural industrialization financing system

2.1 Cooperative economy

Cooperative economy refers to the kind of economy in certain stage of economic development, which is joined voluntarily by laborers for democratic management, and owned by both individuals and collection. It features voluntary, democracy, mutually beneficial cooperation and the integration of reciprocators and possessors in different socioeconomic systems.

The cooperative economy is organized by various cooperatives. It can be divided into 4 categories according to the links of production and reproduction: (1) production cooperative: this is specialized in planting, gathering, farming, fishing and hunting, shepherding, processing, construction and other productive activities, such as agricultural production co-operative, handicraft production cooperative and construction cooperative. (2) Circulation cooperative: this is engaged in marketing, purchasing, transporting and other circulation services. (3) Credit cooperative: this supplies deposit and loan services, such as rural credit cooperative and urban credit

cooperative. (4) Service cooperative: this provides commune members with production and living convenience, including rental cooperative, labor cooperative, medical cooperative and insurance cooperative.

2.2 Agricultural industrialization financing system

Rural financial system is an important component of a country's financial system. It specially refers to the financial system in service of rural areas from the perspective of regional difference. It can also be subdivided from other different angles.

From the perspective of micro and macro as well as functional difference, it can be divided into three levels (He Guangwen, Li Shusheng, et al): (1) micro level: The financial system offering retail financial services to farmers and micro enterprises; (2) Meso-level: The system foundation which guarantees healthy competition, including rating, auditing, payment, information disclosure and other service support system and infrastructures. (3) Macro level: The policy environment including government-led policy, law and regulations, and supervision system. Seen from the system nature, rural financial system can be divided into policy finance, cooperative finance and commercial finance. From the perspective of Three Rural Issues (agriculture, farmer and rural area) and financial demand, rural financial system can be also classified as rural financial service system, agricultural industrialization financing system and rural investment and financing system.

The above classification is never an absolute separation and isolation, but mutual intersection and integration. From the perspective of organization's character, agricultural industrialization financing system consists of policy finance, cooperative finance and commercial finance. The status and role

of them will change with the development of agricultural industrialization. To keep up with China's agricultural industrialization development, it is necessary to build relevant financing system with cooperative financing as the main body, and policy financing finance and commercial finance as both wings. The constant agricultural industrialization and rise of farmer's income will result in decrease or structural change of cooperative finance, reduction of policy finance, and high degree of rural financial marketization.

2.3 Relationship between agricultural industrialization and the cooperative

China's cooperative economy mainly presents as specialized production cooperative, supply and marketing cooperative, credit cooperative, fund cooperative that exists in vast rural areas. The cooperative economic organizations with the purpose of mutually fund cooperation are collectively called cooperative finances. They include regular credit cooperatives, fund cooperative, etc. and other nonstandard cooperative finances.

(1)Agricultural industrialization provides industrial base for construction of the cooperative and the cooperative acts as the important organization carrier. The two promote mutually for common development (Zhang Xiaoshan, Yuan Peng.2010). Agricultural industrialization, producing and operating in a large scale, can't be realized by distributed and self sufficient economy alone. Specialized cooperatives, which are formed by admission of the broad farmers on the principle of cooperation, could ensure scaled and organized agricultural production and offer organization foundation for development of agricultural productivity.

(2) Cooperative finance is the important component of current agricultural financing system. It includes specialized credit cooperative and fund mutual cooperative, or the activity of credit-union based on specialized cooperatives. All of them could offer financing services and fund support to commune members, solve financing problem of famers and even the financing bottleneck of agricultural industrialization development to a great degree. Among them, the combination of specialized cooperative and credit cooperative have produced positive reinforcement to the development of agricultural industrialization and expansion of agricultural finance. The two mutually complement in practice and develop coordinately. (Wang Shuguang, 2012)

(3)Cooperative economy features induced demand, endogenesis, mutual assistance of the weak, embeddedness, implicit contract, reputation mechanism, etc. The rapid health development and mutual combination of rural specialized cooperative and cooperative finance could greatly overcome informational asymmetry, optimize regional credit environment and construct cooperative finance-based agricultural industrialization financing system.

Characteristics and advantages of rural cooperative finance mainly manifest as below: 1) Demand induced endogenous finance. Rural cooperative finance is spontaneously organized by farmers who have difficulty obtaining financing from bank and other formal financial institutions, in order to meet their own financing requirements. It offers financing service from contributed funds, and belongs to demand induced endogenous finance. 2) Alliance of the weak. The commune members of rural cooperative financial organizations are the weak in economic activities with low

income and fewer personal assets. In order to survive and develop, they actively unite to save themselves instead of expecting charity from the strong. 3) Characteristic of social network. ① “embeddedness”: The members of rural cooperative financial organizations are all local residents with high dependence on the region and collective, namely, embeddedness to the local region. ② Information symmetry. Members are familiar with each other with few secrets. Thus information asymmetry is weak. ③ Implicit contract and reputation mechanism. There are not only rules and regulations abided by members in cooperative organizations, but also standards accepted through common practice among members. Unlike formal regulations, these standards are implicit contracts formed in long-term practice and social life. They are consciously observed by the members in action and maintained by group reputation mechanism.

3. Current situation of China’s rural financial system.

With years of reform and development, China has formed the rural financial system with rural credit cooperatives and postal savings bank as the body, diversified institutions—such as commercial financial institution(rural commercial bank, agricultural bank, village banks and small loan companies, etc.), cooperative financial institution(rural fund mutual cooperative) and private financial organizations—developing together. But the fund demand of agricultural industrialization development is still met badly. The reason lies in the imperfect rural financial system, institutional mechanism, incomplete organizational function,

infrastructure and supporting policy, mainly shown as following:

3.1 Incomplete rural financial institutional equipment can’t satisfy farmers’ financing demand.

There are still a lot of financial gaps in the countryside. By the end of 2011, the financial gap towns of China still reach 1696. Nearly 40% of the financial institutions are 3 kilometers away from the villages. The financial networks’ few in number and distant from home have caused the most discontent of farmers. The overall satisfaction of farmers to rural financial services is low and has high expectation on the improvement of the services. (Xiang Jiquan, Cao Jiaqi, 2010) This dissatisfaction mainly focuses on “inconvenient in deposit and withdraw money”, “financial institutions’ few in number and far away from home”, “poor service attitude”, and especially “difficult in loans”.

3.2 Mismatch in status and roles for formal financial institutions and private financial organizations.

(1) Formal financial institutions play a dominant role but supply insufficiently for rural relevant finance.

From the perspective of organization, China’s rural financial system is still dominated by formal finance, including rural cooperatives and postal savings bank with large market shares, policy banks, commercial financial institutions and cooperative financial institutions. Their rural-relevant finance supply is seriously insufficient. The restriction of formal credit to farmers is widespread and severe. Among the farmers who apply for loan from formal financial institutions, the unapproved farmers account for 41.9%; of the farmers who have loan needs and want help from the financial institutions, 40.42% farmers fail to get loans; for the farmers obtaining loans, 35.63% of them indicates that the loans can’t meet their fund demand(Han

Jun, 2008). Massive outflow of rural funds and lack of agricultural insurance further aggravated the tight supply of rural finance.

(2) Private financial organizations are not protected by law, but account for almost half of the rural financial market.

Private finance has long been regarded as outlawed usury. However, it has always been running under the table. The financial demand of the majority farmers can't be met by formal financial institutions, which could only be made up by private finance. Therefore informal finance is inseparable for meeting farmers' credit demand. According to *China's Rural Finance Development Study*, informal finance accounts for half of China's rural financial market.

3.3 Rural financial institution tends to break away from rural area and farmers.

The early twentieth century witnessed reform of rural credit cooperative, with the widespread orientation towards stockholding system, commercialization and scale operation. Large amounts of private capital bought shares to become big shareholders. Credit Union and Rural commercial bank rebuilt on the basis of Credit Union appeared in most of the provinces.

With the expansion of the capital scale, operation scale and commercial operation, benefit maximization naturally becomes the primary target for operation. But rural financial service confronts complicated formalities, high cost and small profits, contrary to its operation target. So deposits from the rural and farmers are lending more to the city. Credit cooperative originally rooted in the country tends to break away from rural areas and farmers.

4. Suggestions

4.1 Encouraging and regulating development of rural cooperative finance.

Revise *Law of the People's Republic of China on Specialized Farmers Cooperatives* to supplement the content of credit cooperative, or make special rural Law of Cooperative Finance, so as to encourage the combination of specialized cooperative and credit cooperative, encourage and to regulate the development of rural specialized cooperative and rural cooperative finance, so as to solve the farmer's financing dilemma through endogenous financing.

4.2 Giving full play to the support role of policy finance.

Continue to strengthen financial support toward agricultural industrialization from agricultural development bank, strengthen its loan intensity and quantity towards agricultural industrialization leading enterprises, agricultural production, small agricultural enterprises, agricultural science and technology, agricultural infrastructure and comprehensive development, circulation system construction, etc.

4.3 Regulating the business operation of rural commercial financial institution

China Banking Regulatory Commission and other supervision departments should further regulate rural credit cooperative (including reformed rural commercial banks), count banks, small loan banks, community banks and other micro financial institutions in terms of their support to Three Rural Issues. Restrict their operation scope and object, aggravate punishment to avoid these institutions breaking away from Three Rural Issues.

4.4 Combining rural financial institution reform with regional pilot site to lead the health development of private finance.

In current Chinese economic transition period, it is necessary to pay more attention to deepen the entire reform and innovation of rural financial system. Otherwise, the simple local adjustment or regional reform cannot fundamentally solve problems. From the point of top-level design and integral advancement of urban-rural integration, with specialized institution taking charge from higher rank to the lower, reform and innovation should be proceeded towards matching system of various fields such as financial market main body, legal system, and credit system, monetary system, relationship between government and finance, deepen private finance-related legal system reform. Meanwhile, draw experiences from the success of Wenzhou financial comprehensive reform pilot area, Lijiang rural financial reform experimentation and other local pilot area, guide the positive operation of private finance. Only then can the financial reform achieve substantive progress.

4.5 Making policies beneficial for the development of agricultural industrialization.

Continue to reform and improve rural cooperative medical service system, in order to reduce farmers' worries behind; In the near future, partial or total fiscal subsidies to agricultural insurance are still needed to reduce agricultural risks; improve tax policies relevant to agricultural industrialization, offer tax preference to domestic products as well as export products without causing international complaints. Support the health development of agricultural industrialization through formulating and improving a series of policies.

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