



Comparison of Investment and Financing Systems in Foreign Agriculture and Their Enlightenments for China

Hongman Zhang

School of Economics and Management

Changchun University of Science and Technology

Changchun 130022, China

Tel: 86-431-8698-1469 E-mail: zhanghm1995@163.com

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Abstract

Agricultural investment and financing systems in USA, France and Japan have their own features and advantages. Through comparison of agricultural investment and financing systems in foreign advanced countries, this article is going to put forward some enlightenments for reform of agricultural investment and financing system in China.

Keywords: Investment and financing system, Rural economy, Rural financing

"Investment and financing system" refers to institutional arrangement for such activities as financing, investment, operation and supervision of funds, and is a system structure organically combined by various relevance factors. As a financial system, agricultural investment and financing system adjusts rural economy resources allocation, and links together capital supply and demand, playing a significant role in economic growth, so it is a decisive factor in development of modern economy. Significance of investment and financing system to economic growth is mainly reflected as follows: on one hand, it realizes effective mobilization of funds, and offers support of sustainable capital for economic growth; on the other hand, it realizes optimal distribution of funds and stimulates growth of total factor productivity.

Rural financial industry in China is obviously in an unfavorable position, in which the financial service level is far below urban financial industry. As the core of modern rural economy, lagging development of rural finance has become the major bottleneck of current agricultural development and rural economic development.

Considering experiences of developed countries in their agricultural investment and financing, we can utilize some of their experiences as a source of reference. They are of critical importance to resolution of difficulties in agricultural financing and to rapid development of rural economy.

1. Comparison of investment and financing systems in foreign agriculture

1.1 USA

1.1.1 Perfection of patterns of financial system

1.1.1.1 Rural credit agency of the government

Rural Credit Agency of American Government is mainly constituted by Farmer Home Administration, Commodity Credit Corporation, Rural Electrification Administration and Small Business Administration, etc.

Capital of Farmer Home Administration is mainly for farmers inaccessible to suitable and adequate loan in agencies such as Commercial Bank, and is used for their irrigational improvement and farm management, etc. In order to diminish credit risk, Farmer Home Administration conducts close supervision and management on utilization of a loan, and also offers technical assistance. This administration is directly under United States Department of Agriculture, with capital resources from capital in cash provided by the government, earmarks of the government and operating fund of a loan.

This administration mainly provides price support to farm products or offers subsidy to agricultural production. It supports agricultural economic development by means of government intervention from sales and production.

Commodity Credit Corporation is a subordinate state corporation organization under United States Department of Agriculture Agricultural Stabilization and Conservation Service, with all capital resources appropriated by the State Treasury.

Rural Electrification Administration mainly issues a loan to non-profit electrical cooperative organizations and farms, etc.

Small Business Administration offers credit assistance to those small enterprises inaccessible to adequate funds from other loan channels. It is a lending institution appropriated by American government.

1.1.1.2 Rural cooperative credit system

Rural cooperative credit system in USA is a multi-dimensional and compound cooperative financial system. It provides credit funds, service and policy support for agricultural production and relevant activities, and carries out agricultural policies of the government by financial credit. According to relevant legal regulation of USA, altogether 12 agricultural credit districts are set up in the entire country, and each district respectively sets up an agricultural credit committee. In each agricultural credit district, a Federal Land Bank, a Federal Intermediate Credit Bank and a Cooperative Bank are established, and all these banks are under administration of the independent agency of the Federal Government --- Agricultural Credit Administration.

Federal Land Bank mainly provides farmers with long-term credit based on real property for their purchase of land, agricultural equipment and livestock, or for their repaying of other debts and mortgaged & remedied houses and other buildings. It mainly includes funds bought into by borrowers and earnings accumulated, and funds raised through "unified bonds of Federal Farm Credit Banks Association" and "unified bills of Federal Farm Credit Banks Association".

Capital of Federal Intermediate Credit Bank is mainly used to offer short and medium term moveable agricultural mortgage credit. Its loan targets are agricultural producer members, and it offers a loan to farmers through Production Credit Unions. In each agricultural credit district is set up a Federal Intermediate Credit Bank. Altogether more than 400 local agencies are established --- Production Credit Unions. Furthermore, over 1600 production credit cooperatives and other affiliated agencies are set up in each union, altogether constituting the agricultural production credit system of the whole country.

Cooperative Bank mainly provides loans and consulting service to Agricultural Co-operatives. It mainly offers short term or seasonal business loan for inadequate loan in circulating capital, construction of infrastructure, and for loan of supporting export of farm products. Only genuine agricultural cooperatives are qualified to apply for a loan from Cooperative Bank. The loan granted may be used to offer loans to members within the agricultural cooperatives. In addition to the Centralized Cooperatives by the nation, there is one Cooperative Bank respectively set up in 12 agricultural credit districts all over the country.

1.1.1.3 Other private financial agencies

Other private financial agencies are mainly constituted by Life Insurance Company, Commercial Bank and dealers. Life Insurance Company is the biggest non-depository financial intermediary in USA, which offers long-term loan for rural development. Commercial Bank mainly deals with agricultural loan transaction. Rural credit loans offered by dealers mainly belong to commercial credit, namely, sell on credit and prepayment.

1.1.2 High-efficiency agricultural investment and financing decision-making, management and operation mechanism

America carries out all-in-one of investment and financing decision-making and management to guarantee correct implementation of investment and financing policy. As a constitutor of agricultural investment policy, the Ministry of Agriculture entrusts its affiliated Bureau for Economic Research and Agricultural Stabilization and Conservation Service to make a comprehensive analysis based on development conditions of agriculture. During analysis, the two bureaus have different focuses. Bureau for Economic Research places extra emphasis on economic influences of investment and financing plan upon various aspects, whereas Agricultural Stabilization and Conservation Service focuses on feasibility of the plan per se. Agricultural investment and financing proposal should be discussed repeatedly within departments related with agriculture in order to come to its implementation.

Meanwhile, Ministry of Agriculture is the executor of agricultural investment and financing policy. Agricultural Stabilization and Conservation Service is mainly responsible for price policy of farm products and implementation of a plan, and responsible for dealing with loan and income support of Commodity Credit Corporation. Federal Farmers Authority is mainly responsible for management of credit plans used for providing financial service for farmers, rural communities and rural residents. According to relevant legal regulations, Farm Products Loan Investment Company of the Ministry of Agriculture offers loans and all sorts of subsidies to farmers participating in a governmental plan,

undertaking almost specific implementation and running of each investment and financing policy. Considering the important status of Agricultural Investment Company, Chairman also holds the position of the Secretary of Agriculture, whereas Chairman and Board members are directly appointed by the President. According to specific agricultural investment policies proposed, USDA formulates a definite investment goal, and carries out and operates these policies in a specific way. Then, a high-efficiency investment and financing policy decision-making, management and operation mechanism comes into being.

1.1.3 Diversification of information channels

To raise funds required by agriculture by all kinds of means is a consistent position of American government. Growth of American agricultural credit benefits from a perfect agricultural credit mechanism. Agricultural credit system in USA is classified into national credit system and credit system of commercial bank. As a huge system, American rural financial system has had numerous varieties of financial channels in the process of its long term development, with different characteristics. Then, definite division of labor is achieved, mutually complementary, which is formed in continual competition.

1.1.4 A complete legal system as guarantee

USA is one of the countries with self-contained agricultural legislations, and it has a relatively complete set of agricultural legal system, which makes definite stipulations for all aspects including agricultural investment and financing, including "Agricultural Adjustment Act" in 1933, "Food and Agricultural Act" in 1965, "Agricultural Amendment Act" in 1977, "Food, Agriculture, Resource Protection and Trade Act" in 1990. Besides, the act of 1990 also stipulates, loan rate of wheat and forage plants should be maintained above 85% of average market price in the first five years. All these legal legislations have enabled rural financial operation to have regulations to abide by and have avoided randomness of financing behaviors.

1.2 France

1.2.1 Mechanism of financial intervention in agriculture and inductive mechanism

French government has taken a series of measures to accelerate development of agriculture, and has strengthened financial intervention in agriculture in agricultural investment and financing system to vigorously support agricultural production. Agricultural investment mainly refers to investment of basic production assets, including such fixed assets that can be accrued as buildings, perennial crops, and large-scale machines.

However, investment of French government in agriculture, especially national financial investment and all sorts of credit support, has definite investment targets and supportive scope, so as to guide farmers' investment direction and to achieve agricultural modernization as fast as possible. 1) To encourage construction of agricultural infrastructure and construction of advanced agricultural equipment, such as rural water conservancy construction of small reservoir and irrigation facilities for agricultural cooperative agencies. (2) To encourage scale management of land. As for large-sized rancheros, they are accessible to medium-term and long-term credit with low interest; as for small-sized rancheros, their borrowing rate is relatively high, which is aimed at speeding up concentration of land and facilitating utilization of agricultural machines. (3) Large scale investment in agricultural scientific and research education and training system. (4) Implementation of farm products protection system to guarantee income of farmers. (5) Development of environment-friendly agriculture to guarantee agricultural production and living environment of farmers.

Through definite investment direction and based on requirements of development of modernized agriculture, the government guides investment of funds from various sources and rational allocation of investment, increases economic profits of governmental investment and guarantees steady development of agriculture.

1.2.2 Effective credit support for agricultural mechanism

Policy-oriented financial institution in France is constituted by government organizations and quasi-government organizations. Credit Agricole SA is an agricultural policy-oriented financial agency. National Agricultural Credit Treasury is the highest official leading institution, receives double leadership of Ministry of Agriculture and Ministry of Economic Affairs and Finance, participates in formulating agricultural credit policies in the country and provides recommendations and policies for agricultural development policies and plans of the government. Local and regional treasuries are cooperative, and their business activities are controlled and coordinated by the National Agricultural Credit Treasury. Agricultural credit support has played an important facilitating role in agricultural modernization in France.

1.3 Japan

1.3.1 Support of potent investment and financing plan of agricultural finance

After the World War, in order to accelerate recovering production, Japan established a government-led financial investment and financing system. The country offered its financial funds or funds raised through financial means to the

government. Finance Ministry is responsible for the unified planning, Ministry of International Trade and Industry & Ministry of Agriculture, Forestry and Fisheries are responsible for implementing the plan, and for supporting implementation of the national industrial policies. In terms of construction of social infrastructure, adjustment of industrial structure and international cooperation, and under support of potent “investment and financing plan”, industrial structure of Japan is gradually optimized and upgraded.

1.3.2 Regulation and guide of definite industrial policies

Investment and financing system of Japan and its industrial policies supplement each other. In order to ensure output efficiency of capital invested, Japan government has formulated definite industrial policies, and regulates direction of investment in agriculture in a macroeconomic way by economic and legal means. Japan classifies its sector of the national economy into three categories: strategic industry, general industry and low-end industry. Since agriculture is closely interrelated with development of the whole national economy, the government has been always viewed agricultural basic industry as a primary task of financial investment in industrial policies. Specifically, Japan attaches great importance to use of economic means to regulate agriculture, such as interest and price, etc. In recent years, investment of subsidies by the government in agriculture has been on the increase, which plays an increasingly significant role in agricultural development. Furthermore, as one of means of policy-oriented financial investment, the significance of long-term loan with low interest has become more and more obvious, whereas significance of funds owned by farmers obviously declines.

1.3.3 Application of legal means to guarantee investment in agriculture

In addition to economic means, Japan also highlights legal means to guarantee investment in agriculture. Japanese government has issued several financial policies and regulations related with agriculture. Altogether ten laws are issued to strengthen support and protection of the country on agriculture and to standardize and regulate investment policies of the country in agriculture, such as, <<Norinchukin Bank Act>>, << Act on Japanese Agriculture, Forestry and Fisheries Finance Corporation >>, << Fund Method of Agricultural Insurance>> and << Act on Subsidies for Agricultural Improvement >>. For instance, <<Act on Japanese Agriculture, Forestry and Fisheries Finance Corporation>> is issued to ensure that, in cases when practitioners in agriculture, forestry and fishery have difficulties in raising funds from Norinchukin Bank and other general financial agencies, agricultural policy-based financial agencies in Japan -- Japanese Agriculture, Forestry and Fisheries Finance Corporation can provide them with long-term funds with low interest to guarantee and increase production capacity in agriculture, forestry and fishery.

2. Enlightenments of foreign investment and financing systems to China

2.1 *The government should strengthen its support for agriculture*

From the above analysis, it is seen that government of all the countries attach great importance to support of agricultural development by financial investment. Dating back to history of agricultural development in these countries, their agricultural development lagged behind in the earlier period, and development of their agricultural production capacity mostly depended upon investment from the government. After realization of agricultural modernization, although the proportion of agriculture declined in the entire national economy, financial scale of agriculture has been on the increase. Green Box measures taken by the government of these countries are more popular than in developing countries, such as agricultural scientific research, storing subsidy offered, food aid subsidy, natural disaster compensation subsidy, etc, and support on agriculture by the government is more vigorous. The other supportive measure of the government is to establish perfect and effective credit support mechanism. Credit funds are important sources of agricultural capital, and plays a crucial role in agricultural development.

2.2 *A sound rural financial organization system is a necessary capital guarantee for development of rural economy.*

Rapid development of rural economy in the above countries is closely interrelated with their sound rural financial systems. Generally, these countries own a complete rural financial organization system, which guarantees funds allocation for rural economic development and promotes rapid development of rural economy. Rural financial reform in China should allow for establishment of more than one particular mode, but should center on one mode, with other modes functioning together, that is, a diversified and compound rural financial organization system

2.3 *To establish agricultural investment and regulation mechanism with integration of market regulation and macro-management*

In a highly developed market economy, macro-economic control of the government of the above countries over their agricultural investment and financing has got continually strengthened instead of getting weakened. Macro-economic control of agricultural economic activities include aspects of financing, finance, taxation and law, etc, and have immensely enhanced quality and efficiency of agricultural macro-management and control. China should further intensity reforms of economic management system in agriculture, set up a high-efficiency and powerful market regulation and macro-management institution, and create favorable external environment for efficient operation and

increase of competitive strength.

2.4 To bring agriculture into the standard legalization

Sound development of rural financial systems in USA, Japan and France benefits from effective operation of their sound laws and regulations and from establishment of a strict investment and financing supervision mechanism. They definitely specify and guarantee agricultural investment and financing policies by legal means, so that farmers gain subsidies pursuant to the law. They make productions according to standards, which enables the entire agricultural development to form a virtuous circle. We should modify and perfect a variety of regulations as soon as possible, such as <<Agriculture Act>>, formulate and issue laws and regulations that will facilitate innovation of rural financial system and financial products, establish standardized system of agriculture and ensure healthy and sound development of agriculture in China.

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