



Promotion of Rural Financial Innovation and Resolution of Agricultural Financing Difficulties

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Abstract

Difficult agricultural financing has become the primary bottleneck in agricultural development and rural economic development in China. For instance, serious loss of rural funds, which cannot form a virtuous circle; monotonous products of agricultural financing and unitary agricultural financing channels; inadequate optimization of rural financial ecology, etc. Positive promotion of rural financial innovation is the key to resolving agricultural financing difficulties and promoting rapid development of rural economy. Rural financial innovation has extremely significant strategic meaning.

Keywords: Agricultural financing, Financing innovation, Rural economic development

"Financial innovation" refers to establishment of "new production functions" within a financial field, and it is a combination of various financial factors and is a market reform formed for the pursuit of profits. It generally refers to a series of new things emerging in the financial system and financial market, including new financial tools, new financing methods, new financial market, new payment and settlement means and new financial organization methods and management methods, etc. Developmental history of the entire financial industry is a history of continual innovation. (Chen Daisun & Li Yining <<Theoretical History of International Finance>>).

As the core of modern rural economy, rural finance in China lags behind, and has become the primary bottleneck in current agricultural development and rural economic development. Compared with developed countries, there still exist the following problems in Chinese rural finance, such as low level of financial service, inadequate capacity of rural financial innovation, insufficient business varieties, unitary service means, lagging settlement means, and difficult financing, which together result in difficulties in satisfying demands of diversified financial service.

It is estimated from relationship between finance and economic growth, annual incremental demand on rural finance from 2009 to 2015 will be 900 billion to 1700 billion Yuan, among which 300 billion to 500 billion Yuan cannot be satisfied. If financial innovation is not conducted on a large scale and financial supply is not increased, then the gap between supply and demand will continue to be enlarged, and will reach 5400 billion Yuan by the year 2010.

It can be seen, rural financial innovation has an extremely significant strategic meaning to establish modernized rural financial system, promote rural reform and development, carry out various policies favorable for farmers, and promote modernized agricultural development in a positive way.

1. Difficulties of agricultural financing in China

1.1 Serious loss of rural funds and impossibility to form a virtuous circle

In China, rural finance has been faced up with the difficulty of serious "blood loss". Firstly, Chinese peasants deposit a large majority of income for savings. Thus, most of rural funds flow to postal savings, various commercial banks and rural credit cooperatives. Secondly, due to weak ability of peasants to resist natural disasters, high risk and unstable

income, etc, and due to profitability of capitals on the part of Commercial Bank, they successively weaken rural market and diminish affiliated agencies. Several large commercial banks transfer most of their funds to cities, and seldom offer loans in rural areas. Postal savings have always been playing the role of “life pump” in rural finance and they “merely save but not offer loans”. As a result, bank deposit of rural households is transferred and flow out of rural areas by commercial banks. Thirdly, rural credit cooperatives with high rate of non-performing assets also provide limited credit support to peasants. Due to historical burden, they are reluctant to assume any risk, so they use a large majority of their funds to purchase national debts and financial bonds, or offer a loan to township private industry and commerce.

Due to existence of the profit-driven nature of funds, financial resources are transferred in a steady flow from rural areas to urban areas, from poverty-stricken areas to developed areas, and from agriculture to non-agriculture, which result in the financial “blankness” in Chinese rural areas. In a consequence, it is difficult to bring in advanced technology, regulate agricultural industrial structure, and develop agricultural investment with high value added, which result in inadequate investment strength in agricultural infrastructure construction and seriously affect sustainable development of agriculture.

1.2 Monotonous agricultural financing products, unitary agricultural financing channels, and serious restraint on agricultural development

Increasingly complicated rural household’s economic structure, income structure, and continually upgraded agricultural structure and rural industrial structure exhibit diversified and complicated financial demands, and form different demand levels, which requires diversification of financial agencies and financial activities to satisfy such demands and to provide various financial service products. However, distempered rural financing mechanism, narrow financing channel and small rate of direct financing are caused by the following two reasons. On one hand, lack of stock rights financing channel; on the other hand, unitary debt financing channels. Chinese bond market has always been lagging behind, and furthermore, rural corporate bond is still in a virgin state, so most rural medium and small enterprises have to accumulate financing by informal financial means.

1.3 Inadequate optimization of rural financing ecology

Bad rural financial and ecological environment is due to the following problems: weakness and chronicity of agricultural industry, weakness of rural credit foundation, instability of rural financial consciousness and credit consciousness, and lack of rural credit guarantee mechanism, insurance and credit rating system, agricultural legislation.

Rural legal construction lags behind, legal regulations to standardize and protect rural finance is not complete, and there lacks perspectiveness of legal construction for reflow mechanism of rural funds. Corresponding stimulation policies and regulations are lacking for rural financial innovation. Furthermore, agricultural insurance legislation is seriously underdeveloped, and there lacks the law of agricultural disaster indemnity.

A standardized and unified management system cannot be formed for rural credit rating system. For instance, in implementation of micro-credit in rural areas, generally rural households should be rated and then are offered corresponding line of credit. However, this sort of rating system is effective in a small scope, but cannot form a universal and standardized management system.

Rural credit value chain is far from being complete. There are not adequate guarantors, the scale of guarantee is small, guaranteed scope and targets are relatively narrow, and there lack legal standards and effective supervision on guarantors.

Intelligent support in financial innovation is inadequate, and compound financial talents are lacking, including talents in research and development of financial innovation, talents in marketing of new products, and especially compound talents proficient in new financial theories, and practical operation experiences, and with integration of research and practice. All the above restrict rural financial innovation and application and financial tools.

2. Study on agricultural financial innovation

2.1 Rural economic and industrial development is always regarded as the breakthrough and foothold in innovation of rural financial tools

Financial innovation is the external motive for reform and development of financial industry. With rapid development of rural economy, rural development and prosperity of peasants are more dependent on driving of the industrialization of agriculture, and demand of funds for the industrialization of agriculture is on the increase year by year. Therefore, rural financial agencies should cater to changes of the situation, insist on market orientation, and continue to satisfy diversified financial requirements in increasing growth of rural economy and society based on demands and through adapting to rural economic development and financial innovation of industrial development.

2.2 Acceleration to develop new types of rural financial organizations with various forms

Financial demands of current Chinese rural areas are classified into multiple levels, and various financial demands require a diversified financial organization to offer support.

On the precondition of strengthening supervision and preventing risks, we should continue to broaden market access and cultivate rural financial market with appropriate competition. New types of rural financial agencies should be developed vigorously, such as, micro credit organizations, village and township banks, credit subsidiaries, and rural mutual cooperatives, etc. Those farmers' professional cooperatives with preferable conditions should open credit cooperatives, and those farmers' professional cooperatives in line with supportive conditions should be offered such credit service as united insurance and mutual insurance, etc. "Regulations on lenders" should be formulated as soon as possible, which has significant meaning to standardization of nongovernmental credit and vitalization of rural economy. Zheng Fengtian, Assistant Dean of School of Agricultural Economics and Rural Development of Renmin University of China, pointed out, with attack of deceleration of global economy on Chinese rural development, contradiction of supply falling short of demand in agricultural development capital becomes prominent day by day, and legalization of rural nongovernmental credit will be popular among common farmers in urgent need of microcredit financing, which will be the breakthrough for standardizing and leading rural nongovernmental financing.

2.3 To encourage and support financial agencies to innovate rural financial products and financial service

With deepening of socialist new countryside construction, the coverage of demand by rural economic development on capitals becomes more extensive, the industrialization of agriculture calls for rapid expansion of rural financial service demand, and demand of rural economy on financial products and service becomes more and more. Multiple levels and individualization of financial demands determine diversification and differentiation of rural financial products and service. In the past few years, financial agencies have conducted innovation of different sorts of credit products in the process of offering service in the whole country, such as, the convenient innovative products of "fast credit", overdraft, revolving credit of working capital, standby facility, domestic credit operation, and electronic bill loan, etc. And also secured innovative products, such as, household's bonding company credit, village credit guarantee committee, united guarantee credit of agriculture and enterprise, rural pledge loans of the right to derive benefit from land, petty sum soft loan of forest ownership, and agricultural support loan of "company-base-household", etc. As for rural poverty population and low-income groups, policy-support financial services are the primary choice, such as, help-the-poor discount-interest loan, petty sum help-the-poor discount-interest loan through "rewards in place of subsidies", and household petty sum credit, household loan to help the industry aimed at non-agricultural industries, private business and farmer enterprises, "rural grand time" loan, start-up loan for rural youth, and start-up loan for farmers losing land.

Financial agencies should also continue to innovate financial and governmental petty sum credit loan and loan to groups, etc, form a variety of credit product portfolio, and promote agricultural production increase, farmer income increase and rural economic development in a comprehensive way.

In May 2007, Ji County and State Development Bank deepened cooperation, probed into new modes of credit funds supporting county economic development, and tested on "financial and governmental petty sum credit loan" in Yinliu Town of Ji County. Ji County established government financing service platform --- development financial and governmental cooperative office of Ji County. A financial and governmental cooperative mechanism of "3+2+1" was established, and financial and governmental cooperative agencies covered the whole county and its towns and villages. In order to resist loan risks, Ji County Government and Sinosafe Insurance Company further probed into a new mode of financial and governmental cooperation and combined together traditional agricultural insurance with loan liability insurance. Loan credit insurance is a sort of innovation. On one hand, such financial and governmental cooperative mechanism ensured security of 40 million Yuan for the government to secure capital, and it used limited funds secured to trigger more financial funds. Meanwhile, it could reduce risks of difficult loan repayment for loan households due to natural disasters and man-made calamities. On the other hand, through transfer of the right of recovery, it realized marketization of governmental behavior and strengthened guarantee of debt repayment. According to their own practice, Ji County explored petty sum mode of financial and governmental cooperation, resolved difficulties of farmers' financing and stimulated farmers' enthusiasm in starting up an undertaking.

2.4 Perfection of agricultural investment and financing guarantee mechanism and optimization of agricultural financing environment

Effective implementation of the above measures is dependent on perfection of various supporting measures and external financial environment. Financial agencies should strengthen their communication with the government, coordinate the government to issue relevant policies and then provide a broad prospect for sustainable development of rural financial innovation. For example, they can promote innovation of rural financial products by resorting to the government in their positive role in fiscal subsidy, tax relief, establishment of farmers' credit risk compensation system, cultivating factor market and establishment of rural financial ecological construction.

Sound laws and regulations are important guarantee to strengthen rural financing attraction, because they can provide perfect guarantee mechanism for rural financing. In order to establish and perfect rural financial agency access and withdrawal system, establish multi-level and diversified financial products and tools to innovate policy support system, and to promote business cooperation and financial innovation of rural financial agencies, we have to formulate agricultural financing regulations, abide by laws and regulations, and bring the financial support system for new countryside construction into a legal track.

Meanwhile, we should vigorously establish and develop county intermediaries for guarantee, evaluation and notarization, etc. Establishment of county and village credit systems should be positively promoted, rural insurance development should be accelerated and credit risks for supporting agriculture should be diffused. Various forms of media should be made full use of to extensively propagandize credit, and typical examples can be used to advocate credit, punish loss of credit, and build an atmosphere of credit. Rural financial environment should be optimized.

In 2009 when credit is nervous, World Bank will establish “agricultural financing support fund” with the donation of \$20 million from Bill & Melinda Gates Foundation. The fund will support donations offered by banking and nonbanking institutions to enlarge rural financing service in developing countries, such as, savings, payment and insurance, and will regard them as profit service. Renate Kloeppinger-Todd, the rural financing consultant of World Bank, says, “We should guarantee to obtain financing service by a sustainable means to alleviate poverty,” and “the fund will enable financial agencies to provide new opportunities for small peasant households, so that they can conduct new investment to improve their productivity and can utilize new technology and service.” World Bank has provided support for many countries to improve the environment for development of their financial departments. It has also directly offered rural financial investment. In the fiscal year 2008, World Bank made a promise of \$613 million to 28 rural financial projects. Support of World Bank has provided vigorous guarantee for financial innovation in developing countries.

At present, international market disruption is being aggravated, global economic growth is obviously slowing down, and there are too many indefinite and unstable factors in international economic environment. Only innovation can motivate rural development. Positive promotion of rural financial innovation is the key to resolving rural financing difficulties and promoting rapid development of rural economy.

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