



## Study on Operating Style of the Country Bank

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### Abstract

Nowadays, the experimental country banks are in good conditions as a whole and they play an important role in promoting the construction of new socialized countryside, however there are some problems existing in operating .here try to provide some reference suggestion.

**Keywords:** Country bank, Country, Suggestion

In August 5, 2008, the Chinese bank supervision community officially issued the <the spread picture of country financial service in Chinese bank field >,it shows that with the steady promot of bank supervision community adjusting to relax the financial institution of the contry bank .A lot of country banks ,loan banks and finance mutual help community are born. The first six experimentalprovinces:QingHai,HuBei,JiLing,SiChuan,GanSu and Neimenggu set up 31 new countryside financial in town or under the town ,of which there are 19country banks,8financial mutual heipcommunities ,4 loan companies.By the end of the year 2007,the deposit receipts of the three-style country financial institution are 0.431 billion yuan and the loan receipts are 0.226 billion yuan .There are 219 small-scale country enterprises and 5483 families in country loaned.

Since May 1,2007,the first country bank was set up in the countryside of YiNangHui in SiChuan,the experimental new country financial institution has been exisited over a year.By the end of 2007,considering the drawback in DongFeng country of JiLing province,they earned over0.2 billion yuan,at the same time,the RuiXin country of GanShu earned about 1.01 million yuan,thus it became the largest scale and most effectively operating bank,while the HuiMing country of SiChuan suffered a slight lose.Seeing now, the whole condition is good,plays an important role in propel the construction of new socialized country.There are some successfull experience as well as the problems ,this text is trying to anylasis in order to develop the economy of the country and their banks to achive the double win .

### 1. The current predicament of rural finance and contributing factors

The problems currently faced by rural finance in China are the existence of serious financial constraints. These financial constraints are mainly centered on the official rural financial sector, with both shortage in the supply of funds and insufficient demand for funds in this sector. However, the main issue is supply-related constraints while that related to demand is less important.

#### 1.1 The supply-related and demand-related constrains on rural finance

Currently, supply-related finance constraints in Chinese rural finance mainly reside in the insufficient network of official financial institutions and in an insufficient supply of funds by these institutions.

The first is that the network of rural financial institution is inadequate. At present, although nominally the institutions providing financial services to the countryside include the ABC, the ADBC, RCCs, rural Post Office Savings and the PICC, those institutions which can in fact supply funds to the countryside are very limited. The ADBC acts as a policy bank and does not provide any loan to ordinary enterprises involved in agriculture or peasant households. Rural Post Office Savings organizations only provide a savings service but no loans. Although the ABC provides loans for agriculture, most of which are for basic rural facilities and agricultural product processing companies, with few loan for peasant households. Moreover, after the withdrawal from the rural financial network over recent years by the Industrial and Commercial Bank, the Construction Bank and the Bank of China, the ABC has not filled the gap. Therefore, millions of peasant households and tens of thousands of rural enterprises can only apply for loans from RCCs. However, only about 40000 or RCCs are legal entities and they do not form a financial network. It can be seen that there is a lack of financial institutions which can provide credit services, which is one of causes for the insufficiency in the supply of rural fund.

The second is the defects in rural financial system. Macroscopically, the mechanism of access, regulation, and withdrawal of rural financial market have not been well established, resulting in monopolization and, herein, lack of

competition on rural financial market. Microscopically, the ownership of rural financial institutions is not clarified, weakening the stimulating mechanism and restricting mechanism in management, and leading to the disconnection of responsibility with profits, which have directly negative impact on the operational behavior of financial institutions.

The third is the defects in rural financial management system. Under the leadership of the United Provincial Credit Cooperatives, rural credit cooperatives that used to scatter in countryside come into factual monopolization, which meets the demand for local economic and financial development. At present, United Provincial Credit Cooperatives basically follow the model prior to the reform in distributing administrative authority and responsibility among its subordinate credit cooperatives, while the power for decision-making in allocating credit is more centralized than before.

### *1.2 The demand-related constraints on rural finance*

The insufficient effective demand by peasant households for services offered by official financial institutions leads to the demand-related financial constraints. Currently, there is an insufficient demand for financing by peasant households. On one hand, there is insufficient natural demand which is mainly determined by the low degree of rural commercialization, high farmer self-consumption of grain, oil, meat and vegetables and a limited degree of monetization which have reduced the commercial demand by peasant households for funds. On the other hand, stimulation of demand is insufficient and this is the main cause of demand-related financial constraints. In turn, this is the result of policy limiting the development of rural finance institutions.

Firstly, as the provision of consumer credit services by official institutions is lagging, the demand by peasant households for such credit is weak. Currently, it is difficult to activate the rural market in this respect, partly due to low peasants' income. However, when peasants build houses, buy durable consumer goods, educate their children, or hold weddings or funerals, it is generally difficult for them to obtain loans from official financial institutions. This forces peasants to transfer the demand for consumer credit to unofficial financial institutions and, as a result, the demand for funds from official financial institutions is reduced.

Secondly, risks in agriculture and the low degree of rural mercerization have reduced investment demand by peasant households. As natural disasters frequently occur in China and farm produce is perishable, the natural risks in agricultural production are high. But agricultural insurance is backward. At the same time, because of the low degree of market development, the risks and costs for obtaining information and technology, as well as market transactions costs, are high for peasant households. Due to such risks and a lack of correlative policy tools, the majority of peasant households can only choose to operate within traditional industries instead of entering into other businesses, other than agriculture. This restricts their channels for investment and reduces their demand for borrowing capital from official financial institutions.

Thirdly, loans from official financial institutions are difficult to access which inhibits demand for investment by peasant households. Investment loans from official financial institutions such as RCCs and the ABC are difficult for peasant households, mainly because of the lack of collateral (for example, land use rights cannot be mortgaged), guarantees are difficult and formalities complex. Striking examples of this are the difficulties of obtaining loans by impoverished peasant families or by peasants living in backward areas, as well as by households with medium or high incomes for expanding their scale of production or adjusting their agricultural structure. Since the ABC has been transformed into a state-owned commercial bank, fewer and fewer loans have been extended to peasant households. The RCCs, the main official financial institution issuing loans to peasant households, find it difficult to meet the requirements of the majority who want loans.

## **2. The contribution the country bank making to the country economy**

2.1 the construction of the country bank does good to promoting the form of the new country financial competition style, thus, forming the style of the coexistence of country bank, agricultural developing bank, agricultural bank, post saving bank, country credit community and various informal financial institutions. There is no doubt that the country bank's entry promotes the development of the country financial institution, and adds a financial channel which favors the policy of "three rural", thus can make up for the blank caused by the business bank's moving away from the country areas, besides, it can solve the problem that the state-owned business banks' inadequate support to three rural and middle or small enterprises based on the strict examination, complicated procedures and the high requirement, and it's good for the better development of three rural, and local economy. The foreign capital business banks' entering into the country financial markets enhances the competition pressure of the country credit community. Before it, the country community is the main resource of farmers' loan for the lack of country financial institution and its monopolized state made it the leading role. These so-called "foreigner" in the country financial market brings benign shock to it. In some areas, because of the increase of the country financial community, the country credit community begins to offer services initiatively. There is no doubt that this is a good start considering the development and advancement of the country credit community.

2.2 The construction of the country bank provides a stage for innovation of the country finance. The innovation of country finance has been an important content of the financial reform all the time. It reflects as follows: first, it offers financial services initiatively to agricultural enterprises or private owners. The financial need for these enterprises or individuals has long been surplus. What's more, it mostly effects through the popular financing <informal financing>. The occurrence is no doubt to widen the financing channel, thus supply a certain financial insurance for forming the formulated agricultural operation. Second, this can expand our country's consume credit need, because of the large proportion of education, medical treatment in farmers's life expenditure, the country bank can make certain exploration in this aspect and then promote the county consume credit market. Third, with the high development of nation's economy, the high income of the farmers, the improvement of the life standard and some farmers own a sum of money on the move, the occurrence of the bank can meet the most farmers' need.

2.3 The construction of foreign capital country bank--HuiFeng country bank is an effective measure of open train of thought of creating the new country finance. Some people in promised that, this move is good for expanding the open field, optimizing the open structure, improving the open quality, making use of creatively foreign capital way, and deeping the country financial reform in the point of "open". the seventeenth meeting of the people's representatives and centre economic meeting on the total strategy about system reform of the country finance thought highly of utilizing the national and international resources, actually leading the foreign capital financial institution to take part in the experimental job of the new country financial institution, thus further promote the reform of country financial system, construct the modern country financial system of coexistence of various own system and operating reform, rational structure, flawless function, effect and safety.

### 3. The operational state of rural finance in Japan

#### 3.1 The rural financial model in Japan

There are many self-generating farmer financial organizations early in the second in the 19th century and a nationwide of rural financial system until now in Japan. The rural financial system in Japan is composed of the government financial institutions, cooperative financial institutions and other financial organizations. The cooperative financial institutions mainly are peasant associate system, made up of the agricultural cooperative combination, the credit agricultural cooperative combination and the agriculture and forestry central treasury.

The agricultural cooperative combination is the grass-roots organization that directly has credit relations with peasant households. They process nonprofit services of deposits taking, loans, loans settling, insurance and marketing. The credit agricultural cooperative combination is middle-level organization that helps grass-roots peasant associate for funds management and plays bridge and tache roles between the grass-roots peasant associate and the agriculture and forestry central treasury. They provide services to grass-roots peasant associate that absorb their remaining funds and finance for grass-roots peasants associate in their hour of need, but not engaged in insurance, marketing, etc.

The agriculture and forestry central treasury is the central level organization that are on financing, dispensing and liquidation within the system of capitals and work capitals according to the national laws, as well as guide the work of the credit agricultural cooperative combination and provide consultation for them. The business scope of the agriculture and forestry central treasury is bigger than that of the agricultural cooperative combination, including the deposits, loans, business agent and foreign exchange. Its funds are mainly used for the agricultural cooperative combination, also loans to large enterprises associated. The agriculture and forestry central treasury also deals with funds transfer cycle, part of securities investment, except to provide services for the grassroots and intermediate institutions, issuing bonds on agriculture and forestry. The agriculture, forestry and fishery public treasury is the government financial institution. Its mission is to offer funds with low interest rates or long redemption date for those people who go for agriculture, forestry and fishery when they have difficulty in financing towards the agriculture and forestry central treasury and other financial institutions. The funds of the agriculture, forestry and fishery public treasury is mainly used to finance for infrastructure, such as land improvement, afforestation, the construction of fishing harbor such as fishing, also used for agricultural modernization, as well as for loans on agricultural modernization, improvements in agriculture, facilities that large domestic wholesale markets for agricultural products and trading markets are built. Its businesses generally are not directly handled, but are entrusted to the peasants associate system agency, and pay a certain commitment fees. The agriculture, forestry and fishery public treasury is the supplementary of the peasant associate system and the commercial bank loans, as it were.

The agricultural credit guarantee and insurance system is also a measure that the government supports the rural finance. It is an important part of the agricultural credit compensation system in government finance. It comes into force according to the Agricultural Credit Guarantee and Insurance Law formulated by the Japanese government in 1961. The credit guarantee system is the rules and regulations that can reduce and avoid credit risks of credit givers to ensure credit discharge or obtain compensations when indebtedness cannot be cleared off. The agricultural credit funds association specializes in providing guarantee for the agricultural loans of its members. In credit insurance, the insurer is the creditor whose loss is compensated by the insurer because the debtor fails to fulfill obligations. The business of

the agricultural credit insurance association is mainly divided into two parts, guarantee insurance and finance insurance. The guarantee insurance can provide insurance for the items that the agricultural credit fund association pay the debts in lieu. The finance insurance can provide insurance for the items that the loans on agricultural modernization from the agriculture and forestry central treasury and the credit agricultural cooperative combination fell delinquent.

### 3.2 operation analysis on rural financial institutions in Japan

The rural financial institutions in Japan play an important role in the economic recovery since its establishment, especially after the second worldwar. However, since the 1990s, its disadvantages are also increasingly exposed with the development of agricultural modernization and rural finance.

#### 3.2.1 Structural capital surplus

The rural financial institutions in Japan are facing a serious capital surplus because the farmer's income has a constant increase in every year, which make rural financial institutions absorb so many deposits, but rural capital demand is relatively limited with the improvement of agriculture modernization and productivity. For example, the survey around the problem of is found that the rural financial system provide loan value no less than 5.5 trillion yen for housing loans, its proportion of 47.1%, far more than the other the financial system include cities bank.

3.2.2 Compared with large financial institutions, the competitiveness of the agriculture and forestry financial institutions is weak due to ill electronized and informatized hardware equipment. It showed that financing cost is relative taller and business areas is relatively narrower.

#### 3.2.3 The management lack of democracy and transparency

The funds of the agriculture and forestry financial institutions come from the deposits absorbed by the grass-roots collaborative combination. The cooperative collaborative combination association as intermediate level organization should announce and explain the use of vast funds to the grass-roots collaborative combination. However, the cooperative collaborative combination association provided such a large amount of funds that general members of collaborative combination knew nothing about it, even the director of collaborative combination knew nothing about to housing loans. The black-box operation in management make the problems cannot be found and solved early.

#### 3.2.4 Ignorance of financial risk consciousness

It is mainly for two aspects. The first is the loan mortgage isn't examined necessarily Although a mortgage is required. The second is the capital is concentrated excessively lack of risk consciousness, such as the capital concentration on real estate.

#### 3.2.5 Excessive intervention of the government

The government, the officials and business become one flesh. The government's intervention, support and guidance have played a positive role in financial development in the beginning (especially after the second worldwar). However, the government caused by excessive intervention resulted in the lack of transparency in the financial system and the weak of implementation effect of financial policy with the further development of the economy.

## 4. Problems out of operating the country bank in China

4.1 The fixed location in the market deviates from serving three rural and (Temporary management of village banks ) shows that the country bank is a bank financial institution in country ,mainly offering services for local farmers,agriculture and the development of country economy.The needof the local farmers'little credi hasn't been considered by the credit communityuntil now,which is the blank of the country finance,alse a biggest problem needed to be solved.While the country bank's ability in this aspect is weak,either,thuscan not fill up the blank..Apart of country banks'ignoring the "high risk,high cost,lowbenefit",but eyeing on the smallenterprise owners or export enterprises of numerous loa.The devirats from the originalintention of constructing country bank to some degree.For example,ZhenDu country bank set up by HuiFeng differs from other country banks in its setting up directly in ShuiZhou district.WangDongShang,the president of the board announced that,the loan receipts won't bo over 0.5 million yuan.According to his schedule,the later loan service in2008 will expand to reach farmers.

4.2 The credibility of country bank is weak. The law of the business bank shows that the loan issued by the country bank can not reach over 75%of the deposit.Without financial sources ,the loan business country bank can not srart .Some people in country bank introduced that their credit is weaker than other bank even country credit community ,thus it's difficult to attrat the deposit.The bank hold several meetings with the country people and introduce the people and products,however ,the villigers consider it as personal banks ,and dare not deposit.Taking another one for instance, in the Yi Long country where the YiLongHui Ming bank seats,which is the first country bank in our nation ,the namely proportion of the credit 8%,in fact it is over 15%,which is much higher than any other country bank or credit community.Unfortunately,farmersprefer to loan from association while country banks or credit community .Therefore,the lack of money to loan in association while country banks loan little occurs.Besides,such

banks have only one net point without joining the bank union, it is inconvenient for villagers to deposit or withdraw.

4.3 The creativity is inadequate for lacking of the divided financial product. So far, the loan business in country bank is almost alike with community business. Because of the scale finance, the credit ability is far weaker than credit community, thus, the existence of country bank is in question, for its function is almost the same with credit community.

## 5. Several suggestions on country bank's operating

5.1 Realise the identity of the country bank and its fixed location clearly. There is a biggest policy context in constructing country bank, that is carrying out the concept of scientific development, constructing new socialized country. Construct the country bank properly under the leading thought of "industry feeds agriculture, city supports countryside, the wealthy support the poor, making the financial institution with advantage extend the credit support to country. Besides, provides farmers, agriculture and country economy with more convenient, more full, more effective financial services by attracting and controlling, the country capital through stock system. Of course, it complies with main idea of the seventeenth meeting of the people's representatives and is a meaningful as well as prolong strategic decision to make poor farmers to become rich, improve low productivity and develop country economy much better and faster. Alleviating the condition of farmers objectively, we can divide them into three groups. The first one is those who are under poverty line with out enough farmland to support their lives. The second one is those who are getting out of poverty by running private business. They large plants and have solve the basic problems of living. They are now becoming the active productivity in the country. The third are those who have been already rich. They run enterprises, shops, schools and any other beneficial business. They have been ahead in developing the country economy. The main object to offered by country bank should be those who are in the first two groups, especially help those in the first group enter the second or third one. If the country bank only supports the second or the third one, ignoring the first one, it only makes the country bank commercialized through robbing the high-quality credit resources of countryside. Thus it can't solve the main problems and deviate from the original intention of policy of constructing the new socialized country. The primary task of the country bank is to help poor farmers to get out of the poverty, especially those who are poorest and most need the help, or it can not be a real country bank.

5.2 Enforce the supervision. The difference between the fixed location in the market and political objective should be remedied in time, or it is passive once the experimental effects are already spread. This should be seen considering the balanced development of the country economy, further more, the whole national benefits. Whatever Corporate structure the country bank has taken, or where the business net point is seated, the fixed location should pay more attention to where to loan to. Financial supervision department should set up corresponding system to assess annually and give suggestions for their improvement or even ask them to get out of the financial market as to those who do not answer for the fixed location. The construction and the run of the country bank are economic phenomena, but we should pay attention to its political context and it concerns people's livelihood.

5.3 Implementing certain proper beneficial policy to promote the sustainable development of the country bank. Nowadays, in a period of market economy, there are no investors or stock boards running completely political business. Their short-time investment, the same as advertising, is to get much more return. To observe such market rule, we demand of perfecting corresponding laws on country bank and implementing proper beneficial policy, such as perfecting the management construction, derating tax and so on. In a word, the country bank led by government should shoulder the social responsibility as well as enjoy supports from all walks of the walks. Only in this way, can it develop sustainably and bring the worldwide effects into play, thus play an important role as lever and tache.

5.4 The innovation of product and service. It is vital for country bank to own wonderfully customerised products. There is no life without the wonderful product for those with low income in country. Country bank can actively explore in pursuing cooperation and enforce the connection with the varied governmental departments. Also, they should know well about the rules and decision on the main-developing products and cooperate well with the local financial organizations. Thus explore and develop corresponding financial products aiming at varied need of farmers and small enterprises. Besides, city bank can rely on the city bank's financial experiment to design some financial products for some farmers' loan needs, as well as financial needs. On offering financial services, country bank should be qualified as the bank in the fields, which makes farmers to feel it theirs. Farmer families are the equation of production and life. Country banks should take the advantage of the information to improve and innovate the service ability through combining the finance with production, circulation and stock.

To country banks, there are three ways to strengthen the work of lowering the credit risk: Improve the symmetrical degree of information; innovate the style of assurance, finance and assure with the professional cooperation community. Country banks should really deep into the grass roots and master and collect enough information of consumers, thus lower the credit risk for lack of the unknown of the consumers' information. What's more, it should seek and develop a new assuring style. For some countries, they adapt the style of mortgaging the business license of the taxi. For professional community members, we can ask the community to assure for them.

5.5 Relax restrict on the interest rate. Relaxing the restrict on rate is an important condition for country bank's steady development. Nowadays, the flattering extent of the country bank's credit interest rate is 0.9-2.3 times of the norm rate. To the offers of the credit, they care the benefit. Considering the factors such as distant, disperse of areas; the little amount and frequency of loan, to enable the commercialization of the rural financial feasible, 2.3 times the upper limit of the lending rate is still too low. To the needers, the most stringent problem is the difficulty to loan rather than the high interest rate

5.6 Construct deposit safety system of the country bank, complete the competition and the development of country financial institution. We have no deposit safety system now. Our nation has always been bearing the unseen assurance. In the context of the gradually open financial market and the diversity of the own system and the property right, it is no longer appropriate for nation to bear the unseen assurance. And it is necessary to build the deposit safety system of country bank in experimental areas. There are three basic factors to support financial safety net: deposit safety system, serious supervision of financial institution and the function of the latest loaners in China Center Bank. They can strengthen the confidence of the depositors on country financial system and resist Domino effect by closing special financial institutions. By using the system, supervision and rectifying in time of the those imperfect country financial institution, as well as the better improvement of the country financial institution in case that it can only live but can not withdraw from the market.

## 6. Conclusions

In a word, in order to develop the country economy which applies to national situation and varied needs of country areas, it is unfeasible to adapt the system of "Across the board". On contrary, we need to open our mind and be brave enough to innovate and explore new ways as to creating new sustainable model to develop country economy, as well as build new country. It is a challenge for the whole financial field.

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