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Evaluation and Optimization Approaches of Rural Financial Ecological Environment in Hubei Province

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Abstract Agriculture is the foundation of national economy, and the quality of rural financial ecological environment determines the level of rural economic development. At the same time of making outstanding achievements in rural financial reform, there are still many problems in rural financial ecological environment. Taking Hubei Province as an example, this paper summarized existing problems from current situations of rural financial ecological environment, and finally came up with pertinent recommendations.

Key words New rural financial institutions, Quality of financial ecology, Loan-deposit ratio, Credit environment

The financial ecological environment refers to external factors influencing quality of rural financial ecology, generally including economic development level, social credit environment, legal systems and regulations, government acts, social and cultural environment, and operating environment of financial system. Finance is closely related with economy. In the new period, development of rural economy, construction of new socialist countryside, integrated development of urban and rural areas, advance in urbanization construction, and solution to three rural issues need large fund input and financial service support. Rural economic development can not do without favorable rural financial environment. Rural financial ecological environment directly influences quality of rural financial ecology and concerns increase of farmers' income and development of rural economy. At present, in China's rural financial system, rural credit cooperatives are major entities. There are problems of imperfect rural financial system, simple rural financial business form, narrow rural financing channels, difficult financing, and lack of rural financial products.

1 Current situation of rural financial ecological environment in Hubei Province

1.1 Rural economy of Hubei Province keeps rapid growth

In agricultural economic development, Hubei Province realized increase of 309.816 billion yuan of primary industry in 2013, 8.75% higher than the previous year. The primary industry accounts for 12.56% of total production value of the whole province, 2.34 percentage points lower than the previous year. As for the agricultural economic structure, agriculture, forestry, animal husbandry and fishery of Hubei Province in 2013 realized growth of 4.7%. The grain yield increased for 559 million kg. The yield of oil crops increased about 6.7%. The yield of rape seeds keeps ranking the first place in the whole country for consecutive 18

years. In the whole year, the live pig sell rate increased about 4.2%. The output of aquatic products increased 5.5% and agricultural production realized bumper harvest. In the per capita income of rural residents, it was 8867 yuan for Hubei Province in 2013, increasing 12.93% compared with the previous year. The growth rate was 3.01 percentage points higher than that of urban residents, which has been the fact for 4 consecutive years. The proportion of wage income to per capita net income of farmers is constantly increasing. And the proportion of financial income and transfer income also has certain increase. Diversified source of farmers' income lays solid foundation for increase of farmers' income.

1.2 Quality and level of rural financial services are significantly improved

1.2.1 Rural financial institution system is preliminarily established. Hubei Province has basically established wide and multi-level rural financial institution system with financial institutions as major part, including insurance, security, and guarantee institutions. In recent years, such new rural financial institutions appear as rural commercial banks, village and town banks, and rural fund cooperatives. These financial institutions go deep into rural areas, better satisfy financial demands of farmers and rural economic organizations in deposit, loan, remittance, and insurance. Considerable increase of rural financial institutions and constant improvement of system provide large funds for rural market and become indispensable force for development of rural financial market.

1.2.2 The credit structure is constantly optimized. In 2013, Hubei Province formulated detailed credit measures for supporting agriculture, farmers, and rural areas. Firstly, county-wide credit support constantly increased. In 2013, county-wide loan increased about 74.3 billion yuan, 12.7 billion yuan more than the previous year; the balance deposit-loan ratio was up to 43.3%, 1.4 percentage points than the previous year. Secondly, the input for loan of agriculture, farmers, and rural areas was further increased. The balance amount of loan related to agriculture, farmers and rural areas was 5.5 percentage points higher than the average growth

rate of Hubei Province. These promoted optimization and adjustment of credit structure.

1.2.3 Rural financial products are constantly innovated. Hubei Province has made outstanding achievements in promoting pilot projects of innovation of rural financial products and services, effectively widened financing channel of agriculture-related funds, and credit products and mode innovation are more active. In 2014, financial institutions launched many new credit products such as "insurance assistance loan" and "micro business loan", to support agriculture, farmers and rural areas, and extend "industrial associations + joint protection fund + bank" credit mode.

1.3 Government increases financial support for agriculture, farmers and rural areas To actively respond to central government's policy of supporting agriculture, farmers and rural areas, Hubei Provincial government has issued agricultural support policies and increased financial input to agriculture, farmers and rural areas. In the financial expenditure of Hubei Province in 2013, agriculture, forestry, water expenditure accounted for 46.534 billion yuan, 11.05% higher than the previous year. The annual average growth rate in recent 5 years reached 21.36%, showing constant increase of Hubei government in supporting agriculture, farmers and rural areas, which is favorable for development of rural economy.

1.4 Legal environment of the credit is getting improved In 2013, Hubei Province continued promoting credit city, prefecture and county and financial security district construction, deepening construction of enterprise, township and community credit projects, carrying out selection of creditable farmers and village groups, to promote further improvement of financial ecological environment in the whole province. The whole 13 prefectures and cities were praised as creditable prefectures and cities, and 3 districts and counties were praised as creditable counties. Besides, it built 990 creditable towns, accounting for 94.0% of whole towns in Hubei Province. In addition, it cultivated 30177 creditable enterprises with Grade A + credit and continued improving credit information service and management ability.

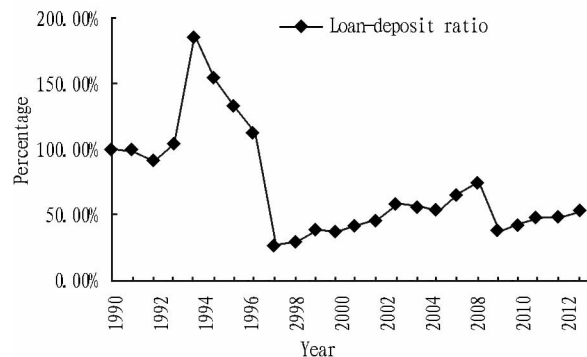
2 Existing problems of rural financial ecological environment in Hubei Province

2.1 Overall level of rural financial service is still relatively low Taking 2013 as an example, financial institutions supported loan of 1923061 farmer households, accounting for 18% of the total farmer households; agricultural loan took up 16.2% of total loan amount; loan of farmer households accounted for 3.87% of total of various loan amount. Such situation influences overall level of rural financial services.

2.2 Percentage of new rural financial institutions is low In rural financial system of Hubei Province, three largest traditional financial institutions are still major service entities of rural finance, while the percentage of new rural financial institutions, such as village and town banks, finance companies, and rural

fund cooperatives, is low. In 2014, the number of sites of five largest commercial banks of Hubei Province, rural credit cooperatives, and postal saving banks accounted for 87% of total sites of rural financial institutions, while new rural financial institutions accounted for only 0.26%. Besides, in large traditional financial institutions, rural credit cooperatives at all levels are still major entities serving farmers, the number of sites of rural credit cooperatives accounts for about 25%, but their loan farmers account for 80% of loan farmers of all financial institutions. These indicate that new rural financial institutions in Hubei Province develop slowly and fail to bring into full play their function of supporting agriculture, farmers and rural areas.

2.3 The loan-deposit ratio of rural financial institutions is relatively low From Fig. 1, the loan-deposit ratio of rural financial institutions in Hubei Province is relatively low. In 1998 – 2013, the average loan-deposit ratio remained at 52%, indicating that supply of rural credit funds basically came from inside. With rural economic development, increase of total output value of agricultural production, the increasing degree of rural deposit is not high, showing that the capitalization degree of rural circulating fund is relatively low, the growth of rural loan demand is not high, consequently restricting rapid development of rural finance in Hubei Province.



Data source: *Rural Financial Operation Report of Hubei Province in 2013*.

Fig.1 Trend of rural deposit / agricultural loan of Hubei Province in 1990 – 2013

3 Causes for existing problems of rural financial ecological environment in Hubei Province

3.1 Economic base of rural areas is weak Hubei Province is situated in central China and middle reaches of Yangtze River. It is rich in agricultural resources, so it is an importance production base of agricultural products. As a province in central China, with some cities and counties situated in Jiangnan Plain, Hubei Province is endowed with geographical and climatic advantages. However, the output value of agriculture is not high compared with its special advantages and takes on certain discordance. Favorable economic base is favorable for further improving financial environment and improving quality of financial ecology, while excellent financial ecological quality creates favorable capital environment for economic development. The discordance of rural regional economic

development in Hubei Province will aggravate discordance of rural financial ecological environment, impair service level of rural financial institutions, financial depth and development speed, and consequently influence quality of rural financial ecology.

3.2 Rural financial entities are vacant and fail to bring into play their functions of supporting agriculture Current situations of rural economic and social development of Hubei Province and weak nature of agriculture for a long time determine that rural finance is characterized by high transaction cost, high risk, and low return rate. As a result, the profit level of industries related to agriculture is low. Most large commercial banks intend to change funds from rural areas or agriculture to urban construction, to obtain higher operating profit. Apart from completing basic tasks of national policies, they favor large projects but belittle demands of rural funds, which influences loan amount of rural financial institutions in Hubei Province to a certain extent. Besides, the ability of rural credit cooperatives is limited. Although rural credit cooperatives are changing to rural commercial banks and their ability of supporting agriculture is improving, the agricultural economic growth is slow. To realize large accumulation of funds, rural credit cooperatives are not confident, which restricts the play of their functions of supporting agriculture.

3.3 Rural financial service system is not perfect and the structure is single Credit operating mechanism of rural financial institutions in Hubei Province is not flexible. Besides, too many procedures, long time, and too many loan conditions, high loan cost, and low approval amount increase difficulty of individual farmer household and small and micro businesses obtaining financial support. In addition, the credit examination and approval power of rural financial institutions is limited, it lacks credit business incentive mechanism, and service enthusiasm of credit personnel is not high. Further, the financing guarantee system is not perfect. In agricultural collaterals, some fixed assets are often refused due to low market liquidity. There are few financial and non-financial institutions supporting rural economic development and rural construction. Their business is single, and there are few new rural financial institutions. Major businesses of rural financial institutions are still mainly traditional ones like deposit and loan, so the business types are urgently to be innovated.

3.4 Rural financial institutions lack perfect social credit system Lack of honest environment is the direct cause for deterioration and low quality of rural financial environment. Rural social credit system of Hubei Province is not perfect and rural honesty education and propaganda work lags behind. Some enterprises are weak in credit concept and have poor awareness of repayment. In small amount loan of farmers, some farmers do not have credit concept and are not honest. Some operators of insurance companies reside in rural banks and cheat farmers, sell disguised insurance products to farmers, which influences the trust of farmers in financial institutions. In sum, lack of honesty will influence development of rural finance and improvement of rural financial ecological quality in Hubei Province.

4 Recommendations for optimizing rural financial ecological environment in Hubei Province

4.1 Improving rural economic environment and energetically developing rural economy It is recommended to stick to the Scientific Outlook on Development, integrate urban and rural development, not partial to urbanization and industrialization construction, and create excellent policy environment favorable for agricultural, rural and farmer development at the same time of developing urban economy. Hubei provincial government should actively respond to national policies, combine characteristics of rural areas, develop rural tourism and fruit economy, develop breeding industry, increase investment, strengthen construction of commodity grain, cotton, oil production bases and fresh water aquaculture production bases, so as to promote rural economic development, and boost development of rural finance.

4.2 Improving services of rural financial institutions and innovating upon service links It is recommended to improve service of rural financial institutions in Hubei Province, bring into full play functions of rural financial institutions' supporting agriculture and benefiting agriculture, and satisfy demands of individual farmers and micro business loan. Besides, it is recommended to enhance reform of rural financial institution system, promote reform of rural investment and financing system, regulate investment act of rural local government, reduce fighting for rural financial resources, and increase utilization efficiency of financial resources. Besides, it is recommended to improve payment system, credit system, credit products, financing methods, and service means, from the demand of supporting development of rural financial services in Hubei Province. In addition, it is required to strengthen construction of rural payment and settlement system of Hubei Province, expand coverage of settlement system for rural financial institutions, improve rural credit management system, simplify procedures for approval of rural loans, properly loosen loan conditions, flexibly satisfy demands of "short, frequent and rapid" circulating funds, and actively carry out pilot and innovation of credit products, and enrich product structure.

4.3 Improving financial credit information system and creating favorable credit environment Slow development of informal finance in Hubei Province is partly resulted from lack of honesty system and low confidence of farmers. From the perspective of seller at informal finance market, it is required to gradually improve certification system and credit registration, so that credit applicants can inquire about credit information of sellers. From the perspective of buyer, it is required to establish individual credit information service system for rural areas of Hubei Province. The credit file should include regular financial transaction and also informal finance. This will improve credit awareness of farmer households, improve rural credit information, increase credit input to agriculture, farmers and rural areas, and support construction of new socialist countryside.

resource advantages, economic pull of development mode and market demand change, and favorable condition of policy encouragement for development of under-forest economy. Development path suitable for under-forest economy in Guangdong mountain areas should be based on ecological protection, to realize maximization of ecological, economic and social benefits. Besides, it should select optimum industrial development mode combining forest, land, water and heat, local characteristics and market preference. In addition, it is recommended to optimize spatial distribution and make proper planning for under-forest economy in accordance with actual local conditions. Also, it is required to encourage development of under-forest economy using the public welfare forest. Developing the under-forest economy is an important path for green growth of economy in Guangdong mountain areas. Government at all levels should organize forces and enhance researches to realize scientific development of the under-forest economy. Government should solve a series of problems, such as how to promote the development of under-forest economy by administrative means, how to make strategic arrangement, how to grasp the development yardstick, how to implement the industrial distribution, how industrial associations guide actions of farmers and enterprises, how leading enterprises lead the industry, how to increase sci-tech input, how to unblock the market information channel, and how to build local under-forest product brand and extend the industrial chain.

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4.4 Regulating intervening act of local government It is recommended to bring into full play guidance of agricultural support policies of Hubei provincial government, properly intervene against financial economic act in rural areas, and guide implementation of rural financial policies. Combining local rural economic and financial situations, it is recommended to speed up building rural corporate guarantee system, rural micro business loan risk compensation system, encourage, support and regulate development of specialized intermediaries closely related to rural financial ecology, improve service level and social reputation of intermediaries, promote prosperous development of rural economy and finance, and boost quality of rural financial ecology in Hubei Province.

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