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The Role Played by Agricultural Policy-based Finance in New Village Construction

LI Ning-hua *

Jiangxi University of Science and Technology, Ganzhou 341000, China

Abstract The necessity of the agricultural policy-based finance in terms of supporting the new village construction is analyzed; in the first place, the theoretical roots of agricultural policy-based finance supporting new village construction are "market failure" and "government intervention"; in the second place, the continual decline of agriculture and the "rural financial market failure" in recent years have become the objective evidence and historical mission for agricultural policy-based finance to support new village construction; in the third place, the combination of agricultural policy-based finance and new village construction is conducive to solving the "three agriculture" problems and facilitating the reform of new village construction. The feasibility of the support is analyzed; firstly, agricultural policy-based finance boasts the status and position of the "primary drive" in new village construction; secondly, the nation continuously deepens the reform of rural financial system and policy-based banks and strengthens the functions of Agricultural Development Bank, which provides policies for agricultural policy-based finance to support new village construction; thirdly, the 14 years' reform and development of Agricultural Development Bank and the eleventh five year plan lay sound practical basis for the support of agricultural policy-based finance to new village construction. Based on the necessity and feasibility, the following six aspects are analyzed to fully display the function of the "first engine" of agricultural policy-related finance to new village construction. Firstly, strengthening the credit and loan aid to grain and cotton and some other agricultural products in the circulation domain; secondly, strengthening the credit and loan aid to agricultural industrialization in processing field; thirdly, intensifying the credit and loan aid to agricultural comprehensive development, rural infrastructure construction, application and promotion of agricultural technology, agricultural production means and agricultural ecological construction; fourthly, intensifying the credit and loan aid to rural special group and regional development; fifthly, intensifying the credit and loan aid to agriculture and rural emergency response system and social security system; sixthly, strengthening the credit and loan aid to agriculture and the intermediary construction of rural financial services.

Key words Agricultural policy-based finance, New village construction, Market failure, Fund recycling, Role, China

The Fifth Plenary Conference of Sixteenth Central Committee of CPC brought forward that constructing socialist new village is a great historical cause. The plan is included in the "National Eleventh Five-year Plan" and it will be the main line of rural work in the future five or ten or even longer period. Thereafter, the leaders of Chinese government frequently point out that the crucial role played by agricultural policy-based banks in rural finance. The 17th National Congress of the CPC re-emphasized that: "coordinating urban and rural development, facilitating socialist new village construction. Deepening fiscal, revenue and financial reform and perfecting macro-control system". As the only agricultural policy-based bank, the role of "the first engine" in new village construction played by Agricultural Development Bank is taken for granted. At the same time, based on the background of new village construction, the role of "Agricultural Development Bank is the bank for constructing new village" should be displayed. The paper mainly focuses on the necessity, feasibility and the choices of agricultural policy-based banks to support the new village construction.

1 The necessity of agricultural policy-based bank supporting new village construction

1.1 From the perspective of economics, the theoretical roots of agricultural policy-based bank supporting and protecting agriculture are the "market failure" and the "government intervention" after market failure Western

economists regard the invalid resource distribution caused by market mechanism as market failure. In the field of agriculture, the market cannot provide public goods effectively, such as agricultural macro-control, agricultural infrastructure, and agricultural socialized service system and so on. These kinds of public goods are exclusive and external in nature and their costs are unparallel with their benefits, which determine that they can not be spontaneously and reasonably adjusted by market supply and demand mechanism. On the contrary, in the real economic life, under the effects of the increment of scale interest, the free competition may cause monopoly. The small number of enterprises in the monopoly position will no longer accept the prices; they will affect and manipulate prices by their monopoly position. Meanwhile, they will lose their enthusiasm for cutting down costs and opening and using new technology, which lead to the waste of resources^[1]. Meanwhile, under the market adjustment, the capital resources will flow from low-profit items to high-profit items, from agriculture to industries and commerce, from poor areas to rich areas, in the end, the "Matthew effect" caused by "circulative accumulation" will inevitably lead to the turbulent and unfair of rural economy. In view of these problems, the government intervention is greatly needed. The government intervention reflected on the financial filed is the combination of agricultural policy-based banks and rural finance. The combination of them lies between the government and farmers, for one thing, the combination conveys the intention of the agricultural policies set by the government to farmers; for another thing, it reflects the demand of farmers, so it is the powerful means for the government to implement agricultural macro-control policies.

1.2 The lasting weakness of Chinese agriculture and "the market failure of rural economy" in recent years become the objective evidence and historical mission of agricultural policy-based finance supporting new village construction

Agriculture is always the foundation of national economy, but its weaknesses have not been eliminated fundamentally. Chinese agriculture is characterized by backward agricultural production means, poor agricultural production situation, scanty per capital agricultural resources with less than 0.11 hm² of farmland per capital, which is far less than the world average level, and the per capital grain decreased from 410 kg in 1998 to 354 kg in 2005^[2]. Correspondingly, the rural finance is absent. In recent years, in order to realize the transfer of state-owned commercial banks to modern commercial banks, the state-owned commercial banks gradually withdraw from rural financial market and unwilling to invest money to the agriculture, for agriculture is characterized by long term, low efficiency, high cost and high risk, and then the "market failure" of rural financial market appears. According to statistics, comparing with the years of 1999 and 2004, the proportion of loan balance provided by each financial institutes to agriculture and township enterprises, each loan balance dropped from 11.69% to 10.15%. But the agricultural GDP in 2004 accounted for 15.2% of the total GDP^[3]. From the perspective of finance, although the expenditure capital has increased year by year, it still can not satisfy the demand of backward countryside, weak agriculture and the "three agricultural Problems" of poor farmers. According to the prediction of Agriculture Ministry, during the "Eleventh Five-Year Plan", the total volume of rural public goods demand is 2 937.3 billion yuan, except the 2 159.5 billion yuan invested by the central government, there are still 777.8 billion yuan vacancy^[4]. The demand makes the inflow of a large amount of agricultural policy finance, which belongs to the fiscal policy investment and funding, become a best and final choice. The developmental degree of agricultural policy finance has become an important demonstration of the agricultural developmental degree of a country.

1.3 Combining agricultural policy-based finance and new village construction is of special and important practical significance to solve the "there agriculture" problems and promote the reform of agricultural policy-based finance

Finance is the essence of modern economy and capital is the "blood" of economic development. Any progress of industries is impossible without the support of finance. In the process of new village construction from traditional agriculture to modern agriculture, the input of financial capital has become one of the key situations. As the special financial activities and financial forms, agricultural policy finance combines with new village construction. In the first place, it is conducive to solving farmers' difficulties in trading grain and cotton; providing employment and education training opportunities; cultivating new farmers and increasing farmers' income and protecting farmers' rights at the same time of comprehensively improving the quality of farmers. In the second place, the combination is conducive to displaying the demonstrating role of agricultural policy-

based finances; guiding the commercial finance and social capital to return to agriculture; accelerating agricultural industrial pace and promoting the adjustment of agricultural industrial structure. In the third place, it is conducive to intensifying the rural infrastructure construction; accelerating the urbanization process of rural areas; narrowing the gap between urban and rural areas; and constructing harmonious society. In the fourth place, it is beneficial to adjusting the demand of the time and the historical opportunity; constructing agricultural policy-based bank and promoting the rapid and good development of agricultural policy-based finance.

2 Analysis on the feasibility of agricultural policy-based finance supporting new village construction

2.1 Agricultural policy-based finance is the "first engine" in supporting new village construction The production, existence and development of agricultural policy-based finance have deep economic and social roots. As the policy tool of a nation, it is not only one of the three drives for agricultural support and protection system, but also the steps across two support levels. That are to cooperate finance to improve the total amount of support; optimize the structure of support, as well as lead the financial level to implement support policy; promote the development of market; create situation for distribute market mechanism and ensure the complete and order operation of the agricultural support and protection system. Therefore, it determines its position and advantages as the "first engine" in the new village construction.

2.1.1 Agricultural policy-based finance is the executor of macro-control. Agricultural policy-based finance can represent the government to complete the items, which the commercial finance or private finance do not want to do or unable to do by implementing national fiscal and monetary policy, macro-control policy, agricultural and rural industrial policy and regional development policy. Through tending to assisting agriculture, it can assist the backward industries, backward areas or the government-supported areas. In addition, the special fund for special use can be achieved, so as to avoid the inappropriate use of agricultural loan, and then the effect of monetary policy can be directly reflected.

2.1.2 Agricultural policy-based finance can help to return rural capital. The capital source of agricultural policy-based finance comes from the national finance rather than savings. So it is characterized by low costs, big volume, and concentration, relatively stable and long term. The features of agricultural policy-based finance determine that it is more helpful to amass capital for rural market than other financial institutes. As for rural market, its capital comes from external support, so its intervention supplements rural capital. At the same time, agricultural policy-based finance plays a promotion, guiding and demonstrating role in terms of investing agriculture and countryside. The industries and regions invested by the agricultural policy-based finance show the long-term aim of the government in the industries and areas. The signal sent by the government may pique

other people's confidence in the industry and the region, that is to say, it can display the guiding and demonstrating role for social capital to input to rural market.

2.2 The nation should deepen the reform of rural financial system and policy-based banks; unceasingly strengthen the functions of Agricultural Development Bank and provide policies for agricultural policy-based finance to support new village construction The 17th National Congress of the CPC and the Central Document No. 1 in the recent two years all clearly point out that the government should deepen the reform of rural financial system and the reform of policy-based banks. Premier WEN Jia-bao and some other leaders have emphasized many time in various great conferences that the leading role of agricultural policy-based finance in rural finance should be well displayed. Since 2004, with the market-oriented sell and purchase of grain and cotton and the depth of rural financial reform, the state will further adjust and expand the business scope of Agricultural Development Bank and strengthen the functions of it in supporting agriculture. Firstly, according to the State Council's opinions on market-oriented reform of grain market, the Agricultural Development Bank extends its sponsors of its traditional loan business from the state-owned grain and cotton trading enterprises to the enterprises of different types of ownership. Secondly, in September, 2004, the China Banking Regulatory Commission approves the Agricultural Development Bank to open the loan businesses to pillar industries and processing industries of grain, cotton and oil. Thirdly, in July, 2006, the China Banking Regulatory Commission approves the Agricultural Development Bank to extend its loan businesses targeting on pillar industries to agriculture, forestry, animal husbandry, sideline agricultural and open the loan business of agricultural technologies. Fourthly, in January, 2007, it is approved to open the loan business of rural infrastructure construction, agricultural comprehensive development loan and agricultural production materials. Currently, the Agricultural Development Bank has taken the shape, which takes the grain, cotton and oil trading as the main body, agriculture and rural middle-and long-term loan as two flanks. It can be seen that the perfection of the functions of Agricultural Development Bank has been implemented primarily, and then the policies and developmental space are provided for supporting new village construction.

2.3 The 14 years' reform and experiences of the Agricultural Development Bank and the long-term plan of the Eleventh Five-Year Plan lay solid foundation for agricultural policy-based finance to support new village construction

Fourteen years since the foundation, the Agricultural Development Bank has become an important financial tool for supporting national agriculture, rural industrial policies, and the implementation of rural regional development policy and for protecting farmers' interests. The operating procedures, management experiences, mechanism system, contingent of cadres of it become mature and it can satisfy the need of various works of agricultural policy-based finance supporting new village construction. At the same time, since its foundation, especially since

1998, the Agricultural Development Bank has seriously displayed its functions and its closed management has obtained rewarding results, which rooted out the problems of "IOU" in trading; the drain of purchasing capital was curbed significantly; the effect of macro-control was shown and the central fiscal expenditure and the pressure of injecting basis money of China Central Bank were greatly lighted. In 2005, the Agricultural Development Bank began to implement the spirit of the 57th executive meeting of the state council. It formulates and implements the *Outline for the Internal Comprehensive Reform of China Agricultural Development Bank from 2005 to 2007*, and establishes the developmental strategy of developing the Agricultural Development Bank according to the demand of modern bank. In 2006, under the background of new village construction, the bank established the image of "China Agricultural Development Bank, Bank of Constructing New Village" and issued the *Developmental Outline of China Agricultural Development Bank from 2006 to 2010*. The outline clearly puts forward "gradually establishing the leading role played by *Agricultural Development Bank* in rural financial system and making the bank to be one of the basic platforms in leading agriculture and rural resource distribution under the situation of market economy". After the reform, experiences and long-term plan, the Agricultural Development Bank is provided with system, mechanism and regulation security and laid solid foundation for displaying its role in supporting new village construction.

3 The role of agricultural policy-based finance as the "first engine" of new village construction

The Agricultural Development Bank should start from performing its agricultural-supporting function and constructing it from the "seven systems", including improved species system of planting and breeding, agricultural science and technology innovation and application system, animal and plant protection system, agro-product security system, market information of agro-products system, agricultural resources and ecological protection system and agricultural socialized service and management system set up by the Agricultural Ministry. In the support and protection framework of the nation to agriculture, the Agricultural Development Bank should rely on the following six aspects and fully display its role as the "first engine" in supporting new village construction.

3.1 The Agricultural Development Bank should strengthen the credit aid to system construction of main agro-products such as grain and cotton in the circulation domain

Grain, cotton and oil are the main agro-products that concerning the national economy and the people's livelihood. So ensuring the reservation of grain, cotton and oil and expanding the circulation of them on the basis of the stable and slightly increased purchasing price are still significant measures for motivating farmers' enthusiasm, increasing farmers' income and realizing the food safety of China, as well as the powerful support for new village construction. From now on, the policy-based reservation and purchase scale will be further expanded from

grain, cotton and oil to other bulk of agricultural products; from supporting commodity circulation to the construction of the whole rural market system; from supporting the short-term circulation to long-term circulation; from supporting domestic circulation to international circulation; from supporting the single market subject to the multiple market subjects. As for the circulation organization of agricultural products, the specialized sale enterprises for agricultural products set up by farmers together and the circulation enterprises of agro-products which motivate the planting, breeding and primary processing of agro-products, they should be provided with more support in terms of credit policy and credit capital.

3.2 The Agricultural Development Bank should strengthen the credit aid to agricultural industrialization in processing field

Agricultural industrialization is a staggering task concerning agriculture and various aspects related to agriculture. The agricultural policy-based finance should be based on the industrial development of agro-products and provide credit aid around the scale operation of planting, purchasing, processing, selling, deep processing and trade of agro-products. The bank should support the pillar industries to construct the base of production, processing and export of agricultural products; open and introduce new species, new technology; construct the processing, storing and transportation and fresh-keeping equipments; create the agricultural industrial new structure takes the pillar industries as tie, science and technology as leader and market as the adjustment. The bank should support the construction of the unified agricultural industrial system including trading, information services, and unification of trade, commerce and agriculture. Besides, the bank should support the deep and delicate processing of agro-products to improve their added-value and accelerate the transformation of commodities; cultivate the excellent agricultural product processing system with distinct local characteristics. In order to increase the international competitiveness of Chinese agricultural industry, the bank should adopt preferential credit policy to facilitate the rapid expansion of the industry at the early stage of the industrial development.

3.3 The Agricultural Development Bank should strengthen the credit aid to agricultural comprehensive development, rural infrastructure construction, the promotion of agricultural science and technology and agricultural production means in the production section

In the first place, the bank should invest the agricultural comprehensive loan to support the transformation from single receiving from agricultural ecological resources and pursuing the short-term interests and extensive development to investing the elements that the ecological needed and pursuing the sustainable use and sustainable development of agricultural resources and intensive development. The bank should support the construction of the base for producing, processing and exporting agricultural forestry and animal husbandry with distinct local features in particular; explore green healthy food, natural medicine, gene modified organism and some other new biological resources; support the harmless agriculture and "shopping basket" pro-

ject; promote the transformation of resource advantage to commodity advantages and economic advantages; and establish ecological tourism zone, natural preservation zone and national forest park and so on. In the second place, the bank should provide the loan for agricultural infrastructure construction to support the construction of irrigation facilities and middle-and small-hydropower plants to develop water-saving agriculture; promote the improvement of middle-and low-yield fields and stabilize the construction of agricultural fields; intensify the land consolidation and improve the output level of grain production; support the construction of grain depot in granary counties to improve the capacity of reserving grain; support the construction of rural roads, power system, and rural communication facilities to promote the mechanization of agriculture. In the third place, the bank should invest agricultural science and technology loan to support new technologies in agriculture, the exploration and application of new products and biological resource; promote the advanced technology with high beginning and high level; establish agricultural high-tech demonstration parks. In the fourth place, the bank should provide agricultural production more loan to support the production, circulation and selling of fertilizer, pesticide, agricultural film, agricultural implement, agricultural fuel and some other agricultural production means. Besides, it should support the enterprises and economic organizations with great influence and radiation effect to maintain the stability and development of agricultural production materials and ensure the normal process of agricultural production. In the fifth place, the bank should invest agricultural ecological protection loan to support the projects of returning farmland for forest and the exploration of grass and trees in the project of returning grassland; support the construction of water and soil improvement and sand-fix and wind-protect project to well cooperate with the construction of intensifying the upper stream of big rivers and lakes and the source areas of inland rivers; support returning farmland to lakes and the governing of minor watershed; protect coastal wetland resources and ecological diversification; support and develop ecological agriculture; highlight the environmental-friendly feature of high-tech technology, the unification feature of agriculture, industry, science and trade, the diversification and synthesis of industrial development and the green nature of resource conservation and zone harm of environment.

3.4 The Agricultural Development Bank should strengthen the credit aid to special rural groups and regional development

Implementing poverty-relief and western development strategy is the important content for constructing harmonious society and socialist new village. Supporting rural poor people and the development of poverty-stricken area is the function of agricultural policy-based finance. Therefore, the Agricultural policy-based finance should actively involve in the businesses concerning rural poverty relief, western development, poverty alleviation in underdeveloped agricultural area, control of returning poverty, recovery and loans for supporting students. In addition, the bank should actively support the self-development ability of poor people and county-level economy of underdeveloped area; accelerate rural poor people's pace of shaking off

poverty; narrow the gap between rural and urban areas, and then promote the construction of rural well-off society in an all around way.

3.5 The Agricultural Development Bank should strengthen the credit aid to agriculture and rural emergency system and insurance system

Agricultural emergency and insurance is one of the "green box" policies in WTO rules and it has become one of the basic approaches for the WTO members to support their agriculture. China locates in the intersection of the world two disaster zones and it is frequently hit by natural disasters. The problems of "One big disaster, poor farmer shortly after that" and "one year's disaster, more than three years are needed to recover" still restrain the agriculture and rural economy development. Agricultural policy-based banks are the important carriers for the support and protection system of national agriculture. Firstly, the bank can work as the financial support for agricultural emergency response system to provide agricultural emergency loan; form the powerful supplement of the emergency response system of the government and fiscal construction and form the united mechanism with the emergency response system of the government, and then fully display its function of "improving people' livelihood". Secondly, the policy nature of agricultural insurance should be given prominence to. The agricultural insurance should be taken as an agricultural protection measures and policy-based businesses. The government can start from the agricultural insurance business acted by the Agricultural Development Bank and then transit to handle the agricultural insurance independently. The approach is an idea choice for saving the exchange costs of establishing institute and making up for the deficiency of agricultural policy-based insurance of commercial finance. The government should gradually expand and enrich the scope of agricultural policy-based insurance business of the Agricultural Development Bank and normalize its operation procedure, and then the agricultural policy-based insurance to be the genuine protective umbrella and stabilizer for developing "three agricultural problems" concerning agriculture, countryside and farmers.

3.6 The Agricultural Development Bank should strengthen the credit aid to agriculture and the intermediate service system of rural financial service

Rural policy-based finance

takes a leading role in rural finance and it has functional advantage in leading the agricultural support policy, creating favorable situation and leading the commercial capital and social capital to flow to agriculture and countryside. The Agricultural Development Bank should actively develop intermediary service; act the payment and settlement of fiscal agricultural support capital; act businesses of the State Development Bank and agricultural insurance; open businesses of collections and payment transfer and the state account settlement business and handle businesses of foreign government and international organization concerning Chinese agriculture; strengthen its functions on financial services. At the same time, the bank should support the third-party guarantee organization developed and normalized by Chinese government or provide guarantee or discount to scale operation rural households and rural middle-and small-enterprises based on the credit of the country; help the service objects to get loan from commercial banks; create situation for the commercial capital and social capital to flow to agriculture and rural areas. Through the efforts above, the rural credit guarantee system can be established and more capital will be input to new village construction.

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