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Developing Situation and Countermeasures of Mortgage Financing of "Three Rights" in China's Rural Areas

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Abstract By adopting archival analysis method and investigation method, this paper expounds the relationship between "three rights" mortgage and farmers' financing in rural areas, and conducts analysis on behavior choosing of "three rights" mortgage financing in rural areas. The results show that the farmers has strong need for financing, but the satisfaction level of need is not high; the farmers have many irregular channels of financing and there is a ubiquitous phenomenon of loan being rejected without mortgage; agricultural modernization, industrialization and scaling – up management have strong need for capital. The main problems yet to be solved in the process of carrying out "three rights" mortgage loan are expounded and corresponding countermeasures are put forward as follows: first, we should solve the problems of mortgage registration as quickly as possible, which is the prerequisite of implementing "three rights" mortgage loan; second, we should establish smooth evaluation mechanism, which is important condition for promoting "three rights" mortgage loan; we should solve the difficulties in confirmation of farmers' house as quickly as possible, which is indispensable element of expanding mortgage loan of farmers' house; we should effectively solve the problem of turning an asset into cash and assets disposal, which is the key to expanding "three rights" mortgage financing; we should establish sound forestry factor market, which is the main part of promoting healthy development of forestry right mortgage loan; we should formulate management methods of financing risk compensation fund of rural property rights and adopt rational measures to reduce taxation, which is the main approach to quicken offering of "three rights" mortgage loan.

Key words "Three rights" mortgage, Financing, Developing situation, Countermeasures, China

Rural financial service is the weak link in the modern financial service system. In order to solve the funding problems of agriculture, we need to focus on farmers' financing, therefore, broadening the financing channels for farmers and innovating upon financing ways for farmers are the inevitable choices of solving the problem. However, for farmers, the greatest asset in the hands is rural land contractual management right, rural house right and forest right. For the bank, these are difficult to assess or difficult to dispose of. In addition, the bank cannot conduct mortgage registration. If the farmers want to finance, they can only depend on farmer microcredit, but the microcredit is small, with short term, which can merely meet the need of production and living. The microcredit can not meet the big specialized producer and economic able-person's demand for considerable capital, which inevitably makes the development of agriculture, farmer and countryside backward, and urban-rural gap enlarge. In order to meet challenge, some provinces and cities take the lead in advancing rural "three rights" mortgage loan strategy, which has played the positive role in resolving the difficulties of farmers' loan. In addition, this measure is of great significance in proceeding from actual conditions to develop the rural "three rights" mortgage loan strategy, reviving the dormant assets in rural areas, achieving farmers' income – increase, and promoting rural economic development, which has attracted more and more attention from whole society.

Based on these, this paper discusses the main problems existing in the development of "three rights" mortgage financing and puts forward corresponding countermeasures to solve the problems of mortgage financing from the perspective of rural economic development.

1 Rural "three rights" mortgage and farmers' financing

1.1 Rural "three rights" mortgage In general, the "three rights" in rural areas is the general term of land contractual management right, rural residents' house right and forest right. Rural "three rights" mortgage financing takes the mortgage financing of land contractual management right, rural residents' house right and forest right as a breakthrough point; takes the farmers, rural small and medium-sized enterprises and farmers' cooperatives within the scope of provinces and cities as loan object; takes developing planting industry, breeding industry, forestry, fisheries, processing industry of agricultural products and sideline products, circulation industry and other agricultural industrialization items, and meeting the demand of services of whole-process agricultural production for agriculture-support fund as objective; takes exploring and solving the system demerits of rural financial services, alleviating loan difficulties and promoting the equalization of urban and rural financial services as purpose. Rural "three rights" mortgage financing is an innovative system to resolve the difficulties of rural loaning.

1.2 Farmers' financing In general, the source of capital of

any economic organization mainly has two channels as follows: first, it is internal financing, that is, by the business activities to obtain certain income, after tax deduction and benefit distribution, part of the benefit can be kept to form self-accumulation of management organization, and this kind of accumulation is converted into investment, thus forming the internal financing of management organization; second, the surplus funds of other economic main body are absorbed, and the surplus funds of other economic main body are converted into enterprise funds, which forms the external financing of enterprises. External financing can be divided into direct financing and indirect financing. Direct financing is a way that the management organizations obtain fund directly from fund providers. Indirect financing is that the management organizations obtain fund depending on commercial banks and other financial institutions in the form of credit, and the most principal form is bank loans, in addition to leasing credit and other forms. Since bank loans can not overcome adverse selection risk, the banks tend to adopt certain approaches to strengthen the supervision and control over the debtor, such as credit rating, requiring necessary collaterals, restricting the use of loans, and so on (Meng Quanxing, 2006)^[1].

In China, the rural household is the basic unit of agricultural operations at present. In terms of organizational form, although the rural household does not reach the standardization degree of enterprise, it basically has the functions of enterprises. China's rural household has obvious characteristics as follows: the level of organization of rural household is low, and the production scale of rural household is small; there is no strict separation between living and production; the production capacity is very weak, and commercialization rate of agricultural products is low. The production and living have long since been mixed together, and the production is for living altogether. Almost all the remaining products are used in the transformation of primitive living conditions, leaving the economic accumulation capacity of rural households scant. Therefore, the ability and the scale of farmers' internal financing are very limited. The level of organization of farmers is low, so that the commercial credit of rural households is affected, and financing scale based on commercial credit is small. Therefore, the mortgage financing should be the most basic choice: on the basis of the rural households' assets, formulate and perfect system and method concerning the mortgage security of rural household assets, and extensively carry out the financing work of the mortgage security of rural household assets.

The existing literatures show that there are mainly two channels to meet the demand of rural households for financing as follows: the first is the regular channel, focusing on banks; the second is the irregular channel, focusing on private lending. A lot of researches and investigations show that the current financing of farmers in rural areas focuses on private lending (Guan Yingying, 2008)^[2]. The agricultural commercial banks are with some problems, such as few institutions which are set up by agricultural commercial banks, small-amount loans and frivolous formalities, so, apart from closely-related units and big producers, the common farmers find it difficult to loan in ag-

ricultural commercial banks. In the mean time, the private lending is with limited range and small sum but high interest rates, so it cannot guarantee the capital inputs needed for realizing the objective of promoting the dramatic development of agriculture, farmer and countryside.

In summary, the financing channel of the majority of farmers at present is very narrow, and the capacity of financing from the regular financial channels is very limited due to shortage of effective and sufficient collaterals. Implementing "three rights" mortgage loans in rural areas can be conducive to successful financing from regular financial channels on the part of rural households.

2 Behavior choosing of rural "three rights" mortgage financing

As an open system, the behavior of farmers' financing is a kind of main means to adapt to changes of the current rural economic environment. Therefore, when the external incentive becomes the internal need of farmers for survival and development, it will generate the driving force of behavior for farmers to develop financing, and then under the combining influence of the government's policy mechanism, guidance of financial institutions, social regulations and personal volition and so on, it promotes farmers' behavior of "three rights" mortgage financing. With the ceaseless deepening of behaviors, the new need is created, thus it forms an interconnected closed-loop, which can be seen in Fig. 1.

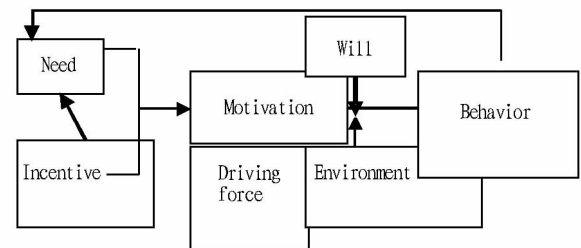


Fig. 1 The model of farmers' financing behavior

Specifically, under the new situation, rural economic development presents new requirements on the financial services, which can be embodied as follows.

2.1 The farmers has strong need for financing, but the satisfaction level of need is not high First, the consumption level of rural household takes on a trend of rise, and the consumption level of rural household grows rapidly. The rural households mainly depend on the market to meet their own needs of living, and they have completely broken away from dependence on self-production for survival. According to statistics, the consumer spending of rural households accounts for more than 70% of net income of rural households. Moreover, in recent years, the consumer demand of rural households increases rapidly, which has become the main aspect of the financing demand of rural households. Second, production capital demand of rural households takes on long-term trend^[3]. With the acceleration of land circulation in rural areas, the degree of intensive management of rural households becomes in-

creasingly high. These rural households are inseparable from the credit capital supports and the use of financial products, in terms of farmland water conservancy, purchase of new large agricultural machinery equipments and cultivation of cash crops. At present, economic forest, timber forest, forest medicines, forest grass, ecological garden, flower seedling base, dates base and so on, that are operated by the farmers, urgently need more capital and the corresponding term of loan of some investment programs. Therefore, in the construction of new socialist countryside, people's consciousness of using external financing to develop production will be ceaselessly strengthened, and farmers' demand for credit will become increasingly huge. But currently, on one hand, as the majority of farmers in China lack effective and sufficient collateral, so that the ability to finance from the regular financial channels is very limited, that is, the farmers' financing channels are narrow. Thus, the high-cost and high-interest private financing becomes the main channel of farmers' financing. On the other hand, impacted by the thought of laying stress on industry at the expense of agriculture for a long time in China, the government's financial investments in rural areas decrease year by year, and the total supply of credit funds of financial institutions is critically scanty.

2.2 The farmers have many irregular channels of financing and there is a ubiquitous phenomenon of loan being rejected without mortgage The investment capacity of rural collective economy and farmers is not enough, and the government's financial investment is limited, therefore, seeking the external commercial financing almost becomes the only choice of farmers' financing. Difficulties of farmers' financing are mainly embodied at two levels: first, the financing of farmers is difficult; second, it is more difficult for farmers to finance from regular channels. When bank lends loans, they generally need deposit receipt or property as collateral, or need security. The property of the general farmers can hardly meet the requirement of effective collaterals, and it is quite difficult to look for deposit receipt or guarantor. Because of this, the regular financial institutions are reluctant to lend loans to farmers.

2.3 Agricultural modernization, industrialization and scaling-up management have strong need for capital Industrialized and large-scale operation, become an inevitable trend in recent agricultural development, is an agricultural mode of operation suitable for China. For the time being, the rural economy has a trend of marketization, industrialization and urbanization, and the adjustment of the rural industry and product structure promotes the commercialization, large-scale production and specialized operation and management of agriculture, forestry, animal husbandry, and sideline production. Especially in recent years, driven by the new development models, such as "company + base + farmer" and "project + association + farmer", a large number of specialized villages of breeding, fruits, vegetables and so on, with a prominent trend of large-scale agricultural management. These industries urgently need more credit fund support, relying on existing micro credit loans of rural financial institutions, namely, the maximum credit loan of sever-

al thousands yuan to each household, it is difficult to support farmers to expand production and operation.

In the face of the emergence of new financing needs of farmers at present, accelerating innovation of financial services and resolving difficulties of farmers' financing are the problems that need to be solved urgently. Through the analysis of behavior option and demand factors of rural "three rights" resources and farmers' financing, the core problem of rural "three rights" mortgage financing development is the design of interest mechanism, that is, making the benefit and power corresponds organically. The "three rights" mortgage financing can be generalized that under the given goal, through the profit distribution mechanism, it is to stir the enthusiasm of participation of the relevant main body, such as the government, financial institutions, farmers and so on, in order to promote the smooth implementation of reform, and realize the rural economic development and income increase of the rural households. The specific ideas can be seen in Fig. 2. The specific process is to be realized through the power decomposition and interest division of "three rights". Different functions of property rights executed by different main body is the decomposition of power, and corresponding interests belonging to different executors of power is the division of interests.

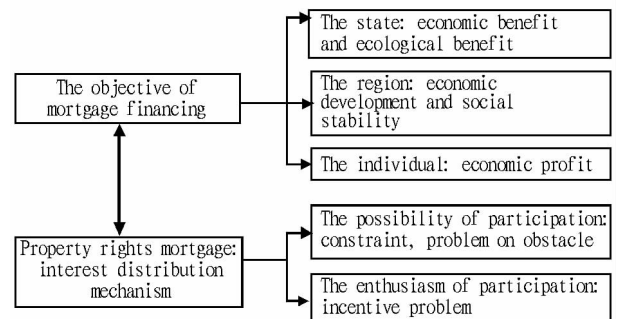


Fig. 2 The objective of "three rights" mortgage financing and interest mechanism

3 The main problems yet to be solved in the process of carrying out "three rights" mortgage loan and corresponding counter-measures

3.1 We should solve the problems of mortgage registration as quickly as possible, which is the prerequisite of implementing "three rights" mortgage loan Obtaining certificate of title by registration is a prerequisite for successful mortgage loans. Agriculture committee, the bureau of land resources and the bureau of forestry need to formulate registration management regulations concerning rural land contractual management right, and the mortgage of rural residents' houses and forestry right respectively, so that the regulations are specific and easy to operate. Agriculture committee, the bureau of land resources and the bureau of forestry also need to accelerate the pace of mortgage registration, so that it is conducive to promoting "three rights" mortgage loans nationwide.

3.2 We should establish smooth evaluation mechanism, which is important condition for promoting "three rights" mortgage loan

Currently, there are mainly two problems regarding assets assessment of "three rights" in rural areas. The first is that there is a shortage of professional assessment institutions and the sound value assessment system. The value of "three rights" assets in rural areas is hard to determine. There is great arbitrariness concerning the assessment main body, the method of assessment, reference standard, the equality of assessment and so on. It makes the value assessment more subjective, and the actual value hard to determine rationally, so that the appraised value is often lower than the actual value. The equality of final determined value is difficult for farmers and the banks that lend loans to accept, which thus constrains the start of such kind of loan business. The second is that the value of collaterals assessed by non-designated assessment agencies is not accepted. The departments of land resources and the departments of housing management in some provinces and cities require that it is valid only if the value is assessed by specified assessment companies. The departments of land resources and the departments of housing management do not accept the value assessed by the mortgagor and the mortgagee after consultations. In addition, the assessment cost charged by the designated assessment companies is excessively high, so that the loan applicants are reluctant to accept it. As for "three rights" mortgage loans, the relevant departments should make it clear that when the sum of loans is not higher than 0.5 million yuan, the value of collaterals can be consulted by lending and borrowing parties, and then the banks that lend loans confirm it; when the sum of loans is higher than 0.5 million yuan, the assessment fees are charged according to cost, the mortgage registration fees are exempted or reduced to half.

3.3 We should solve the difficulties in confirmation of farmers' house as quickly as possible, which is indispensable element of expanding mortgage loan of farmers' house

For the time being, the right confirmation of rural houses has two problems as follows: first, the proportion of right confirmation of rural houses is low, and there are considerable rural houses which are not confirmed, without certificate of right confirmation of rural houses; second, due to the problem of the evaluation mechanism, there are many rural residents whose right confirmation area of rural houses according to the original certificate is smaller than the actual area of rural houses of rural residents.

3.4 We should effectively solve the problem of turning an asset into cash and assets disposal, which is the key to expanding "three rights" mortgage financing Constrained by the laws and regulations, such as *Security Law*, *Property Law*, *Land Management Law* and so on, the disposal of land, residents' houses and forestry in rural areas, is faced by certain legal obstacles. We suggest that when the Higher People's Court formulates the documents regarding hearing cases of "three rights" mortgage loans, it should confirm the reasonability of "three rights" mortgage loans, and secure the legiti-

mate interests of the mortgagee. We should select some typical areas, and establish "three rights" assets transaction center as demonstration point, which is mainly responsible for the collection and dissemination of information of transfer; organizing bidding, auction and transaction of transfer of contracted land, rural housing and forestry rights; speeding up the supporting system construction of agricultural factor markets, agricultural insurance companies, and agricultural security companies. Specifically, the first is to set up regulations and system. We should speed up the formulation of standardized policy documents concerning forestry transfer, so that the transfer can have regulations to abide by, with standardized operation. In the mean time, we should regulate the circulated land and manage the land, so as to make it conducive to circulation and transaction. The second is to build network. By establishing interactive and interrelated network integrating district, town and village, we are to strengthen the management on circulation services and regulatory platform of "three rights", so that the circulation works well in legality, voluntariness, openness and honesty, and we ensure the risk control of mortgage loans. The third is to establish trading platform. We should make the object of forestry right that needs to be circulated and disposed of, come into the market in the transaction platform. The fourth is to set up professional sales company, and establish sales channels for products.

3.5 We should establish sound forestry factor market, which is the main part of promoting healthy development of forestry right mortgage loan

We suggest that the government and forestry sectors should vigorously promote the supporting market construction of forestry factors which focuses on forestry rights circulation, such as forest products trade market, forest resource assessment market, purchase and storage market and so on. The government and forestry sectors should also provide effective market protection for bank's lending of large mortgage loans of forestry rights and prevent credit risks.

3.6 We should formulate management methods of financing risk compensation fund of rural property rights and adopt rational measures to reduce taxation, which is the main approach to quicken offering of "three rights" mortgage loan

We should actively play the role of financial support, and establish risk compensation system of land contractual and management right, rural houses right and forestry right mortgage loans. First, the government should specify the specialized agencies, arrange special funds, and crystallize the process of using special fund to make up the losses of banks which lend the mortgage loans of rural property. When the farmers can not pay off the principal and interest of overdue loans, the county and district government platform companies are to purchase the "three rights", and pay off the principal and interest of overdue loans of banks beforehand. Platform companies can dispose of the purchased rural houses, land and forestry industry. Second, the mortgage loan interest of "three rights" should be exempted from sales tax. We should strengthen the enthusiasm of financial institutions in lending

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financial fund on financial resources, increase financial discount capital and the risk compensation fund of bonding company, establish risk compensation system for the agriculture-related loans, increase the banks' ability to resist risks, and enhance the lending initiative of financial institutions. At the same time, the insurance company should continuously upgrade the coverage and penetration of agricultural insurance, develop new insurance types of fire, pests and disease, explore agricultural related loan guarantee insurance, and establish the rural credit guarantee mechanism with government support, market operation, and multiple participants.

4.5 Strengthening the team construction and improving the service system of forestry According to the requirements of "guidance, management, law enforcement, and service", we should change the administrative functions, innovate management modes, transfer the focus of the work into the forestry law enforcement, market supervision and public services, establish an open and transparent management system, a fair and equitable enforcement system, and a convenient and high-efficient system of administrative services. Besides, government should strengthen the local forestry team construction and the service functions, provide all-around service for the people developing forestry, cultivate forestry industry

leading companies with large scale, high technology content, strong driving force, and good market prospects, enhance the level of forestry industrialization, cultivate the forestry resources by the bases of enterprises, promote the transfer of traditional forestry into modern forestry, establish the protection system of forestry sustainable development, and improve the legal consciousness and management level of forest farmers.

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"three rights" mortgage loans. Third, in order to play the role of leading enterprises, the government and relevant departments should integrate capital, offer interest subsidy to "three rights" mortgage loans for the leading enterprises with good credit, and reduce the burden of the borrowers.

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