



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

# Obstacles to the Mortgage Financing of Forest Rights and its Countermeasures

WEI Xin<sup>1\*</sup>, GE Jin-chun<sup>2</sup>

1. Guangxi Economic Management Cadre College, Nanning 530007, China; 2. Shabu Town People's Government of Qinzhou City, Qinzhou 535000, China

**Abstract** Current status of the mortgage financing of forest rights is introduced. Significance of the development of mortgage financing of rural forest rights is analyzed, indicating that the mortgage financing of rural forest rights is an inevitable trend of rural reform development, Mortgage financing of forest rights in rural China is an effective vector for the farmers' income increase project with financial support, explores the great potential of forest resources, promotes the coordinated development of forestry and financial services. Major obstacles for the mortgage financing of forest rights at present is pointed out, which are the high assessment fees, the complex mortgage valuation, the unsound element market of forestry, and the lack of risk protection mechanism. Countermeasures for the development of mortgage financing of forest rights is out forward. For instance, both government and Forestry Bureau should strengthen the circulation services, establish smooth evaluation mechanism, establish companies for rural assets platform, increase the interest subsidies for forest right mortgage and the risk compensation, strengthen the team construction and improve the service system.

**Key words** Mortgage of forest rights, Mortgage financing, Countermeasures, China

The Three Agricultural Problem is the core of the income increase of farmers. And the fund shortage of rural construction and agricultural development is the key restricting the development of the Three Agricultural Problem<sup>[1]</sup>. Peasant household is the basic management unit of agricultural production in China at present; and solving the problems in agricultural economic development should be started from the household financing. However, the greatest asset of peasant households in China at present is their own contract management land, rural housing sites, and forestry. And implementing property rights financing is an inevitable trend of rural finance development in future. China is a big agriculture country, and the "three rights" mortgage financing in rural areas is needed urgently. In the year 2003, the State Council and the Central People's Government introduced *the Decision to Accelerate the Development of Forestry*, which clearly pointed out that forest rights can be used as mortgage financing. Through the exploration and practice in different regions, there are typical examples, such as Lishui Mode of Zhejiang Province, Yongan Mode of Fujian Province, and Dandong Mode of Liaoning Province. As the core content of promoting the forest rights reform, new governance framework and practice pattern for mortgage financing of rural forest rights are put forward, which are different from the former ones and have realized a series of financial services innovations. This research uses the literature analytic method and interview method to analyze the status, importance, and obstacles of mortgage financing of rural forest rights, and puts forward development strategies for mortgage financing of rural forest rights from the aspects of forest rights assessment, circulation and

protection according to the specific problems at present. Current status of the mortgage financing of forest rights is introduced. Significance of the development of mortgage financing of rural forest rights is analyzed, indicating that the mortgage financing of rural forest rights is an inevitable trend of rural reform development, Mortgage financing of forest rights in rural China is an effective vector for the farmers' income increase project with financial support, explores the great potential of forest resources, promotes the coordinated development of forestry and financial services. Major obstacles to the mortgage financing of forest rights at present are pointed out, which are the high assessment fees, the complex mortgage valuation, the unsound element market of forestry, and the lack of risk protection mechanism. Countermeasures for the development of mortgage financing of forest rights are put forward. For instance, both government and Forestry Bureau should strengthen the circulation services, establish smooth evaluation mechanism, establish companies for rural assets platform, increase the interest subsidies for forest right mortgage and the risk compensation, strengthen the team construction and improve the service system.

## 1 Current status of mortgage financing of forest rights in rural China

Forest right is a kind of right taking forests, trees and woodlands as the object. All the rights belonging to the possession, use, income or punishment of forests, trees and woodlands are divided into the forest ownership. Forest right is an important property right. According to the legal meaning and practice of forest rights, mortgage financing of forest rights is a behavior that forest rights owners take their ownership or use rights of forests, trees and the use rights of woodland as the

mortgaged goods in order to take out a loan from banks, rural credit cooperatives and other financial institutions. And in fact, the former usually occurs, while the latter almost never happens<sup>[2]</sup>. The long-term single pattern of mortgage loan with real estate as the major form has broken through, which is the innovation of the mortgage financing of forest rights. At the same time, woodland use rights and forests ownership rights are introduced as new mortgaged goods, which turns the forest resources into realizable assets.

Within the context of the law, *the Property Law*, *the Guarantee Law*, and *the Forest Law* regulate that use rights of timberland, economic forestry, fuelwood and woodland can be transferred and can be converted into shares or used as the conditions for afforestation cooperation, joint venture, and cooperation and investment of forest management in accordance with the law. This lays a legal foundation for the forest rights being used as mortgaged goods. In the year 2003, Decisions on Speeding up the Development of Forestry pointed out that forest rights can be used as mortgage financing. In the year 2004, the State Administration of Forestry issued the *Application of Measures Concerning Assets Mortgage Registration of Forest Resources*, so that forest rights used as financing guarantees becomes feasible legally. In July 2008, the central authorities have introduced *the Suggestions on Comprehensively Promoting the Reform of Collective Forest Rights System*, which regulated that forest farmers have the contracted management right of woodland and the ownership of forest and can transfer or rent them. In October 2008, the People's Bank of China and the Banking Supervision Commission together implemented *the Suggestions on Accelerating the Innovation of Rural Financial Products and Service Mode*, selecting several counties and cities as the innovation sites of rural financial products and service modes, accelerating the rural financial innovation, and actively improving the rural financial services. This provides legal assurance for the development of rural mortgage financing of forest rights. After implementing the national policy, some regions in China begin to actively explore the mode of rural mortgage financing of forest rights. Taking Yong'an of Fujian Province as the origin, mortgage financing service of forest rights began to be implemented in China rapidly. During the exploration and practice, the Lishui Mode of Zhejiang, the Dandong Mode of Liaoning and other reform models have provided policy blueprint for the mortgage financing of forest rights in China.

## 2 Importance of developing the mortgage financing of forest rights in rural China

**2.1 The inexorable trend of rural reform** Based on the analyses of forest right system in China in the past, it can be found out that forestry assets have established neither management body, nor clear property rights. And the farmers have not truly become the masters of the forests. However, with the establishment of socialist market economic system, reform of forest rights with property rights reform as the core and the "Planting Trees and Thriving People's Living" as the objective

is the historical necessity, as well as the realistic choice of deepening rural reform.

**2.2 The effective vector of the income increase project of peasant households supported by the finance** The insufficient agricultural capital input is a major problem restricting the agricultural development in China. Due to the lack of effective financing channels, the long-term lack of agricultural inputs has seriously affected the potential of agricultural development. The literature shows that there are mainly two channels for the financing of peasant households. One is the rural commercial bank and the other is folk debit and credit. Rural commercial bank has the disadvantages of few operating sites, little fund investment, and complex loan processes. Therefore, except the closely-related units and the big-specialized-households, normal households can hardly loan from the rural commercial banks. Therefore, normal peasant households do not care about the rural commercial banks and usually borrow money from the folk debit and credit, but they peasant households with low income can not afford the high interest, which make the farmers become even more poor<sup>[3]</sup>. Therefore, it can be concluded that the rural financial system at present is still inhibited or distorted, which hinders the development of rural economy. In fact, farmers are not lack of assets in an absolute sense, they have the use rights of land, forest, and houses under the current legal framework. Therefore, developing the mortgage financing of forest rights is an effective way to support the rural economy.

### 2.3 The huge potential of releasing forest resources

China has in all 182 million hectares collective forest land. At the end of the year 2009, China has finished the forest reform area of 118 million hectares, accounting for 64.7% of the overall collective forest land. A total of 5 542 peasant households get the certificates of forest rights and farmers become the real subject of the operation of collective forest land. Moreover, due to the great response of pilot project, farmers show unprecedented enthusiasm for the forestation and their income is significantly increased. Capital and production factors accelerate the flow to rural areas and the grass-roots political authority in rural areas is further consolidated. Forest industry has long production chain, large market demand, and wide employment space. The mortgage financing of forest rights is to make farmers have important means of production, which helps to develop the farmers' initiatives of forestry production and operation, improve the forest resource utilization and production rate, and release the tremendous potential of people<sup>[4]</sup>.

**2.4 Promoting the coordinated development of forest and finance** Developing the mortgage financing of forest rights develops the forestry assets in rural areas, makes the forestry assets become floating capital and realizable "green" bank, effectively promoting the reform of forest rights system in China, expands the field of mortgage financing, and optimizes the structure of credit loan. In a word, developing the mortgage financing of forest rights plays a positive role in promoting the income increase of farmers, the business development of banks and the efficiency increase of forestry.

### 3 Obstacles for the mortgage financing of forest rights at present

According to the investigation and analyses, financial sectors worry about the growth of "three rights" resources due to the scattered distribution of "three rights" resources in rural areas. Based on the security of funds, the enthusiasm for the mortgage of "three rights" resources still needs to be improved. Major obstacles for the difficult mortgage of "three rights" resources are the high assessment fees, difficult mortgage valuation, imperfect forest factor market, and lack of risk protection mechanism.

**3.1 High assessment fees** At present, China has relatively few assessment agencies with forest rights qualifications. Besides, the fees are high in these agencies and the applicants can hardly get loans. Some cities and provinces require that value determination should be carried out by the appointed evaluation company and other companies are not authorized by the banks. But the fees charged are usually too high in the appointed evaluation companies and the loan applicants are difficult to accept the price. For instance, Fengdu Huaxia Ecological Agriculture Development Co., Ltd. requested for a loan of 15 billion yuan, but the evaluation fee is as high as 700 million yuan.

**3.2 Complex mortgage valuation** Value evaluation of forest rights assets is the prerequisite for the certification of property rights. But since the assets of forest resources belong to the special resources assets, it is difficult to carry out value evaluation and can easily cause the evaluation risks of mortgaged goods. Firstly, the assets of forest resources have complex constitution, including trees and woodland. Secondly, there are great value differences in different forest types; and even the same forest type as different ages have great differences. Thirdly, commercial forest and public welfare forest have different values. Public welfare forest is generally low values, because ecological benefit is the major functions of public welfare forest and the eco-compensation policy is still not widely implemented. Fourthly, corresponding trading market has not been formed and the trading market is lack of standardization. Thus, the fair value of forest resources assets can hardly be determined. Fifthly, the value of resources assets has the characteristics of natural appreciation and long growth cycle<sup>[4]</sup>.

**3.3 Imperfect forest factor market** Although the pilot areas have established the forestry factor market, it is still relatively backward compared with the development of forestry industry. The forest and tree resources can not flow freely in the trading market, which brings risks to the financial institutions when dealing with the mortgaged goods. The construction of forest factor market should be further expanded; the farmers can transfer or rent the woodland and trees; and the financial institutions can deal with the mortgaged goods to reduce the risks in mortgage financing of forest rights.

**3.5 Lack of risk protection mechanism** Due to the particularity of forest resources assets, great risk is brought to the financial institutions who offer loans. Firstly, forest resources are easily affected by the natural disasters, including fire, drought, frost, hail, snow, and wind. Once happened, they are devastat-

tating and the mortgaged goods are gone. Secondly, the forest resources assets as mortgaged goods are easily been stolen by people, and the financial institutions can hardly carry out effective supervision. Therefore, it is urgent for the insurance institutions to enlarge the business scope of forest in order to reduce the risks of forest farmers and financial institutions.

### 4 Countermeasures to develop the mortgage financing of forest rights

**4.1 Strengthening the circulation service of forest rights by government and forestry bureau** Firstly, we should reform the logging management system, simplify the procedures, offer convenient logging services for the mortgagee, and further implement the disposition rights of forest farmers. Secondly, we should accelerate the construction of forest factor market, establish forestry trading centers and transaction networks, set up forest right platform with many information and scientific estimation for the forest farmers, realize the standard circulation of woodland and forest, and gradually form an integrated service network of villages, towns, counties, and cities, and offer services for the forest operators in the aspects of legal policy, transfer of forest ownership, forest products prices and so on. Thirdly, we should provide effective market protection for the credit input of financial credit departments, which is the most important means to vitalize the forestry resources.

**4.2 Establishing smooth evaluation mechanism** The standardized "three rights" assets evaluation system should be established in rural areas, including the intermediaries of assets evaluation, the professional assessment team and the evaluation standards. Learning from the successful experiences of the urban and rural harmonious development in pilot areas, ownership certifications of each farm building, contract land, and woodland evaluation should be given to the peasant households, and the peasant households can use the certifications to get loans from the local banks.

**4.3 Establishing the assets platform company in rural areas** The "three rights" mortgage financing is a system engineering. Each bank assumes the part functions of the government and plays an important part in the financing mortgage. According to the analysis, with the implementation of the forest rights mortgage, the bad assets of banks due to the mortgage financing of forest rights will increase. It is suggested that we should establish state-owned assets platform companies in rural areas based on the agricultural guarantee corporation and manage these bad assets. For instance, by taking the state-owned companies as the dominant parts under the guidance of government capital, we should absorb a large amount of social capital to invest in rural economic construction, and carry out financing and investment of the key project of rural economic development. Besides, mortgaged goods of rural forest rights should be firstly transferred within the collective economic organizations. After that, assets platform companies in rural areas can purchase the mortgaged goods.

**4.4 Strengthening the construction of mortgage discount interest of forest rights and the risk compensation mechanism** Local governments should actively exert the leverage of

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

(From page 135)

"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.

## References

[1] MENG QS. Financial credits of Chinese farmers with their houses as

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.

## References

- [1] MENG QS. Financial credits of Chinese farmers with their houses as mortgage[J]. *Issues in Agricultural Economy*, 2006(11): 62–65. (in Chinese).
- [2] YANG Y. Forest right mortgage loan and the sustainability of several models—a case study in Fujian Province[J]. *Forestry Economics*, 2008(2): 44–48. (in Chinese).
- [3] GUAN YY. Financing behavior of households and household income [D]. Sichuan: Southwestern University of Finance, 2009. (in Chinese).
- [4] Economic dynamics of rural monitoring sites in Qianjiang District, Chongqing Development and Reform Commission. Qianjiang District, Chongqing Municipality to carry out forest right mortgage loan investigation and reflection. [EB/OL]. (2010–11–08). [http://njs.ndrc.gov.cn/njxx/t20101108\\_379476.htm](http://njs.ndrc.gov.cn/njxx/t20101108_379476.htm). (in Chinese).

mortgage[J]. *Issues in Agricultural Economy*, 2006(6): 62–63. (in Chinese).

- [2] GUAN YY. Financing behavior of farmers and household income [D]. Sichuan: Southwestern University of Finance, 2008: 22–24. (in Chinese).
- [3] LIU ZX, WANG HY, ZHOU L. The financing demand of farmers, constraints and development of rural finance—Based on the empirical approaches of new countryside construction in Hunan Province [J]. *Journal of Changsha University of Science and Technology: Social Science Edition*, 2008(4): 114–119. (in Chinese).

## About KIT

The Royal Tropical Institute (KIT) in Amsterdam is an independent centre of knowledge and expertise in the areas of international and intercultural cooperation, operating at the interface between theory and practice and between policy and implementation. The Institute contributes to sustainable development, poverty alleviation and cultural preservation and exchange. KIT operates internationally through development projects, scientific research and training, and also provides consultancy and information services. These activities, along with those of its Tropenmuseum, Tropentheater and publishing house, are the Institute's means of bringing together people and organizations within the Netherlands and all around the world. The Institute is a not-for-profit organization that works for both the public and the private sector in collaboration with partners in the Netherlands and abroad.