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Positioning for the Development of New Rural Financial Organizations

GU Fu-zhen^{1,2*}, WANG Ji-heng², FANG Hong³

1. College of Economics and Management, Heilongjiang Institute of Technology, Harbin 150050, China; 2. College of Economics and Management, Northeast Agricultural University, Harbin 150030, China; 3. College of Economics and Management, Heilongjiang Institute of Science and Technology, Harbin 150000, China

Abstract Based on regional differences, differences in the content and scale of economic activities, we analyze different levels of rural financial needs in China, using the system analysis method. Different types of financial need subject have characteristics of diversity and hierarchy in terms of financial needs, in need of different credit patterns and credit mechanisms for satisfaction. Based on this, we position the differentiated development of new rural financial organizations as follows: village and town banks should be established in the central and west regions and counties with the proportion of primary industry higher than the national average, to actively innovate upon loan types, support maintenance-oriented farmers, market-oriented farmers and small and medium-sized agriculture-related enterprises; loan companies and small loan companies can be established in the regions with the potential for development, lacking collaboration between economy and finance, to constantly explore the loan types and innovate upon the loan patterns for self-employed households, micro-enterprises and farmers; it is appropriate to establish rural credit union in the poverty-stricken areas with sluggish economic development and relatively isolated remote areas, to provide services for farmers and micro-enterprises, especially impoverished farmers, provide the business such as deposits, loans, and settlement for members, actively carry out business consulting services for members' poverty alleviation and income increase.

Key words New rural financial organizations, Market positioning, Differentiation, Competitive advantage

The access of new rural financial organizations is a major breakthrough of the rural financial reform, and fundamentally changes the original idea of stock reform of the rural financial system, becoming an important carrier for the Chinese Government to carry out incremental reform in the field of rural finance. Since the People's Bank of China carried out the pilot commercial microfinance companies in Shanxi, Sichuan, Shaanxi, Guizhou and Inner Mongolia in 2005, the new rural financial organizations, represented by village and town banks, loan companies, credit union, and small loan companies, have developed by leaps and bounds. At the end of 2010, 509 new rural financial institutions were set up in China, including 395 institutions having opened business (349 village and town banks, 9 loan companies, and 37 rural credit unions) and 114 rural financial institutions planned to be established; 2 451 small loan companies were established^[1]. However, for the healthy development of new rural financial organizations, we should adhere to the correct positioning from our own actual situation, to achieve differentiated development from the traditional credit markets. Many scholars at home have conducted researches on the market positioning of new rural financial organizations, but they all conduct analyses from the perspective of single organization form, not from the perspective of the entire rural financial system to consider the reasonable positioning of new

rural financial organizations. Based on hierarchical characteristics of China's rural financial needs, we explore various kinds of new rural financial organizations' market positioning having complementary advantages, using the system analysis method, to lay the foundation for them to play an increasingly important role in rural financial service system in the future.

1 Hierarchical analysis of rural financial needs

1.1 Analysis of farmers' financial needs

1.1.1 Financial needs characteristics of farmers in different regions. The regional differences in rural financial needs are prominent. In the developed eastern and coastal areas, since farmers' employment and income have experienced non-agricultural-transformation, the rural financial needs are mainly from non-farm sectors. Financial needs mainly find expression in the needs of rural urbanization and industrialization. The focus of rural financial needs is rural development needs. In China's central areas, especially the major agricultural producing areas, as the scale and quality of agricultural production still urgently need to be improved, financial needs reflect the needs of agricultural production, to much extent. However, most of China's agriculture is in the household production stage. At the same time, due to the weak agriculture's ability to resist risks, coupled with China's interest rate control policy, the risk compensation ability of interest rate is low, so under normal circumstances, the financial needs of farmers are difficult to get the support of formal financial institutions^[2]. In the west and the less developed regions, the farmers lack the ability

ty to respond to major items of expenditure and temporary spending, and loans are largely used to meet the surplus regulation in life arising from the uncertainty of output. The farmer's financial needs are mainly reflected in living-based financial needs and small-scale production-based financial needs. The sum of the two financial needs is small, with poor self-liquidating nature. Under normal circumstances, the capital needs are met through loans from informal financial institutions in rural areas. Therefore, the same rural financial needs will have different emphases in different regions.

Table 1 Different types of farmers' credit need characteristics and satisfaction degree

The credit need subject	Major credit need characteristics	Credit pattern	The degree of satisfaction with financial institutions
Poor farmers	Survival-oriented and simple reproduction-oriented financial needs, such as the cost of living, small-scale crop cultivation and aquaculture's production loans needs	Private micro-loans, micro-credit (including commercial micro-credit), the government anti-poverty funds, financial funds and policy finance	Difficult to obtain formal loans from financial institutions
Maintenance-oriented farmers	Simple reproduction-oriented and part of expanded reproduction-oriented financial needs, such as the crop cultivation and aquaculture's production loans needs	Free funds, private micro-loans, micro-credit loans from the cooperative financial institutions, a small amount of commercial credit	Difficult to obtain formal loans from financial institutions
Market-oriented farmers	Expanded reproduction-oriented financial needs, such as specialized, large-scale production, industrial and commercial loan demand	Free funds, commercial credit	A small number of subjects can obtain formal loans from financial institutions

1.2 Analysis of rural enterprises' financial needs According to the difference of the content and scale in economic activities of enterprises, rural enterprises can be divided into rural micro-enterprises, small and medium-sized enterprises, and

1.1.2 Characteristics of different types of farmers' financial needs. According to difference in the content and scale of farmers' economic activities, farmers can be divided into three types: impoverished farmers, maintenance-oriented farmers and market-oriented farmers. As for various types of farmers, although the financial needs in some respects are homogeneous, the form and characteristics of their financial needs, as well as the means to meet the financial needs are inconsistent^[3-4]. Different types of farmers' credit need characteristics and satisfaction degree can be seen in Table 1.

leading enterprises. There are also differences in the demand for financial services between enterprises with different scales. Different scales of rural enterprises' credit need characteristics and satisfaction degree can be shown in Table 2.

Table 2 Different scales of rural enterprises' credit need characteristics and satisfaction degree

The credit need subject	Major credit need characteristics	Credit pattern	The degree of satisfaction with financial institutions
Micro-enterprises	Market domination, scale expansion and reproduction	Self-owned funds, private loans, commercial credit guaranteed by government, policy finance	Difficult to obtain formal loans from financial institutions
Small and medium-sized enterprises	Market-oriented production loans for resource use	Self-owned funds, commercial credit	A small number of subjects can obtain formal loans from financial institutions
Leading enterprises	Professional skills-oriented scale expansion, reproduction	commercial credit, government funds, risk investment, policy finance	Easy to obtain formal loans from financial institutions

2 Positioning for the differentiated development of new rural financial organizations

2.1 Market positioning of village and town banks From the positioning of business areas, the village and town banks should be mostly established in the central and west regions, and the counties with the proportion of primary industry higher than the national average. From the perspective of customer positioning, the major object that needs to be supported by village and town banks includes maintenance-oriented farmers, market-oriented farmers and small and medium-sized agriculture-related enterprises, mainly to meet the production needs of large breeding households, and even the professional production and processing enterprises of agricultural products. From the product positioning, we should actively innovate upon loan types. Based on the actual situation of farmers, small and medium-sized agriculture-related enterprises, the village and town

banks' business should be focused on personal financial retail business in rural areas and small and medium-sized agriculture-related enterprises' loans business^[5].

2.2 Market positioning of loan companies and small loan companies From the positioning of the business areas, the loan companies and small loan companies can be established in the regions with the potential for development, lacking collaboration between economy and finance. From the positioning of customers, the main service targets of loan companies and small loan companies should be focused on self-employed households, and micro-enterprises and farmers. From the product positioning, we should continue to explore the innovation of loan types and pattern. Based on different borrowers, the credit products of loan companies and small loan companies should be focused on personal credit business and operation loans business.

it allows to exempt from punishment. Besides, even if there is negative fluctuation of economy, it is not proper to refuse to grant loan again to borrowers, otherwise, they may fail to make repayment^[10]. Research and development of the above types of small-sum loan can not do without participation of financial talents. Small-sum loan companies take root in rural areas, thus most of their management personnel come from local backbones, so it is proposed to carry out various trainings to improve financial quality of their employees. Finally, small-sum loan companies can select volunteers who have financial background to lift operating capability.

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2.3 Market positioning of rural credit union From the positioning of the business areas, it is appropriate to develop rural credit union in economically backward and poverty-stricken areas, relatively isolated remote areas. From the positioning of customers, the main service target of rural credit union should be focused on farmers and micro-enterprises, especially the impoverished households^[6]. From the product positioning, it mainly provides the business of deposits, loans, and settlement for members. At the same time, it should actively carry out business consulting services for members and micro-enterprises, to help members alleviate poverty, increase income and promote the development of micro-enterprises in rural areas.

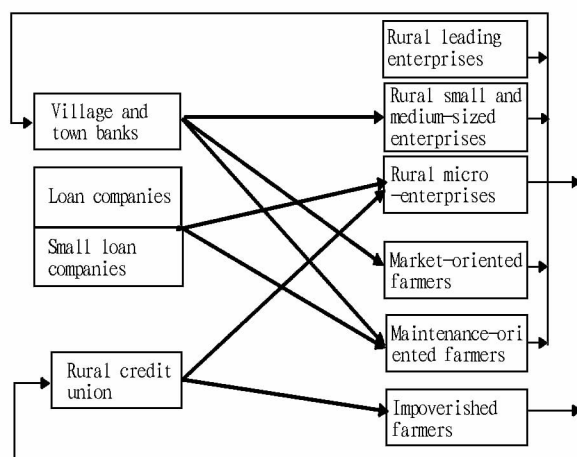


Fig.1 Customer positioning model of new rural financial organizations

3 Conclusions

The market need subjects of rural finance mainly include farmers and rural enterprises, with great differences in the

content of economic activities and production scale, therefore, different types of financial need subject have the characteristics of diversity and hierarchy in terms of financial needs, thereby needing different types of credit pattern and credit mechanism for satisfaction.

On the basis of fully understanding the characteristics of the rural financial market needs, we put forth the market positioning of advantage complementation and differentiated development between new rural financial organizations, which not only protects the "providing services for agriculture" business objective of new rural financial organizations, but also effectively avoids the vicious competition between the various organizations. The reasonable positioning of new rural financial organizations plays an active role in promoting the establishment of multi-level and multi-structure rural financial system, improving efficiency in the use of financial resources, and achieving incremental reform and competition pattern of the rural financial system.

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