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# Study on Development of Land Bank in Shaanxi Yangling Demonstration Park

WEN Long-jiao\*, SU Nan, YANG Xue-jun

College of Humanities, Northwest A&F University, Yangling 712100, China

**Abstract** The construction and operation of Yangling Model land bank has its geographical uniqueness and adaptability. However, there are still problems of unreasonable act of government, single institutional function and lack of supporting security mechanism. In this situation, it is required to improve in both the operation mode and system, constantly improve functions of land bank in Yangling Demonstration Park, and standardize its act, so as to realize effective security of farmers' rights and interests.

**Key words** Yangling Demonstration Park of Shaanxi Province, Land bank, Yangling Model

In general sense of financial intermediaries, land banks not only conduct deposit and loan businesses of land resource, but also deal with financial services related to land<sup>[1]</sup>. Nevertheless, at present, land banks in China are only land financial institutions with limited functions. As the only national level agricultural new high-tech industrial demonstration park, Yangling adopts the way of land bank to speed up large-scale, standardized, and industrial construction of modern agriculture. However, the construction and operation of Yangling Model land bank has its geographical uniqueness and adaptability. In this study, we want to find out land security problems in the development of modern agriculture through analyzing construction and operation mode of Yangling Model land bank.

## 1 Background of Yangling Demonstration Park in setting up the land bank

Yangling Modern Agriculture Demonstration Park is a large-scale and landmark project established by Shaanxi Yangling Demonstration Park for developing modern agriculture and making efforts to provide guidance and model for development of modern agriculture in arid and semi-arid regions of China. In phase I of the Demonstration Park, the planned construction land is 5 533.3 hm<sup>2</sup>, and the phase II will reach 8 000 hm<sup>2</sup>, mainly for developing modern protected agriculture. Intensive operation of land through circulating contractual management right of separate land is a precondition for realizing this objective.

A report issued by the World Bank states that if the per capita GDP is below 500 USD, farmers operate mainly in separate self-sufficient manner; when the per capita GDP exceeds 1 000 USD, commercial operation and market value of rural land will emerge. For example, land owners will deeply desire to transfer land, while land operators also have urgent demand for expanding the scale, thus forming the fundamental force for

circulation of land use right<sup>[2]</sup>. Statistics show that the per capita GDP of Yangling Demonstration Park reached 21 441 yuan in 2009, indicating that land circulation has become actual requirement for development of local rural economy and agriculture. Besides, the current rural land contracted management right shows considerable incomplete property right and becomes an important factor for hindering circulation of rural land contracted management right<sup>[3]</sup>. Since local market economic base is relatively weak, it is difficult to form reasonable circulation transaction platform only relying on market forces. Government departments of Yangling Demonstration Park boost modern production of agriculture with the aid of powerful "hand", to set up and provide appropriate system and policy safeguarding measures for large-scale circulation of land. Specifically, it is to establish land banks to promote land circulation. Such semi-mandatory and semi-voluntary organizations guided by government with cooperation of farmers' autonomy are different from land banks<sup>[1]</sup>, but such land banks successfully realized large area land circulation and verified the adaptability of this mode in certain environment.

## 2 Setup of Yangling Model land bank

At the end of 2008, the Construction Management Center Industrial Development Department of Yangling Demonstration Park issued *Opinions on Establishing Land Banks to Speed up Land Circulation in Modern Agricultural Demonstration Park*, formulated *Articles of Association of Yangling Rural Land Bank, Organizations and Major Responsibilities of Yangling Rural Land Bank*, to ensure smooth establishment of land bank in Yangling Demonstration Park and provide land utilization guarantee for agricultural modernization and large-scale operation<sup>[4]</sup>. The Land Circulation Office of Yangling Demonstration Park guides standard construction of land banks in accordance with *Articles of Association of Yangling Rural Land Bank*.

The land bank implements member representative congress system, in which the member representative congress is its power of organ and member representatives are elected by

all members with three years of term of office. The Board of Directors, as the policy-making body of land bank, is generally made up of five people (one chairman and 4 directors, and the chairman is the legal representative); the Board of Supervisors, as the supervisory body of land bank, is generally composed of three people (one chief supervisor and two supervisors). In the course land circulation, major service functions of the land bank include unified collection and contracting of land, signature of contract with transferred-in and transferred-out parties, submitting supply-demand information, and collecting and granting land rent, etc.

Yangling land banks are generally established with administrative villages as units. By October 2009, Yangling Demonstration Park had founded 10 land banks, involving 10 administrative villages, Zhaixi Village in Dazhai Township, Xixiaozhai Village, Mengzhai Village and Tongzhang Village, Xieshang Village and Wuquan Village in Wuquan Township. More than 698.7 hm<sup>2</sup> land was circulated through land banks. In phase II, the number of land banks will still rise. Land banks in Yangling Demonstration Park belong to rural collective cooperative organizations under the leadership of village Party branch committee and villagers' committee. Their work is guided by respective township people's government and Land Circulation Office of Yangling Demonstration Park. As intermediaries, land banks in villages sign contracts directly with transferred-in parties (cooperatives or enterprises) and guarantee the land circulation in the form of collective credit. Operation of land banks is not for profit, but for promoting land circulation and large-scale operation, and ensuring developing modern agriculture with transferred land.

To ensure smooth implementation of land bank construction, the Land Circulation Office of Yangling Demonstration Park founded the first national demonstrative land bank in Xixiaozhai Village of Dazhai Township where the foundation conditions are favorable. Xixiaozhai Village founded the land bank in accordance with *Articles of Association of Rural Land Bank* in April 2009. The total cultivated land area in this area is 89.3 hm<sup>2</sup>, of which 84.7 hm<sup>2</sup> is circulated through the land bank. 24.7 hm<sup>2</sup> is rented by enterprises and 60 hm<sup>2</sup> is rented by farmers' professional cooperatives for operating modern protected agriculture. The rental period is 20 years and the annual rental is 10 500 yuan/hm<sup>2</sup> with an annual increase of 10%. The village director serves as the chairman of Board of Directors of the land bank and village committee members serve as directors; village branch secretary serves as the chairman of Directors of Supervisors, village committee members serve as supervisors; the Board of Directors take charge of supervising routine works of the Board of Directors. Thus, the land bank and village committee are managed by the same team with two different names.

Workers of land banks in Yangling Demonstration Park are generally village committee members. To reduce the transaction cost in the course of land circulation, the village committee will be fully responsible for works of land banks. However, with rural social governance right granted by the state, the village

committee is a tool of the state administering rural society. Thus, it is administrative to some degree. At the same time, the village committee is a self-governing mass organization. It exercises autonomy through village committee representatives, to safeguard farmers' benefits and manage village collective assets<sup>[5]</sup>. In this situation, land banks also take on administrative and autonomous features. As to operation of land banks, on the one hand, the district government guides and plans land circulation in unison, takes construction service of Yangling Demonstration Park as center, founds land banks as per administrative order, while village committee members carry out land circulation in the status of administrators of land banks; on the other hand, as village autonomous organizations, land banks sign land circulation contract with farmers through seeking advice from farmers.

It firstly defines land use area in the park in accordance with land use planning made by Land Circulation Office of Yangling Demonstration Park. Secondly, it attracts agriculture-related enterprises to enter the park. Then, township government and Land Circulation Office of Yangling Demonstration Park will guide the founding of land banks in acceptable villages, and village committees will act on behalf of land banks. The village Party branch committee and villagers' committee or villager group hold meetings to seek advice on land circulation. After obtaining consent of farmers, land banks sign the entrusted agreement on land circulation, and sign land circulation contract with transferred-in parties (such as agriculture-related enterprises or agricultural professional cooperatives). The transferred-in parties pay land rental at 10 500 yuan/hm<sup>2</sup> to land banks. The rental will be directly saved in farmers' special account. Land banks collect no intermediary fee, and then hand land to transferred-in parties. Agreement related to land circulation should be submitted to competent authorities for approval. Works of land banks should be supervised and government departments should make appropriate policies on land circulation. Operation mechanism of land banks is shown in Fig. 1.

### 3 Existing problems in operation of Yangling Model land banks

**3.1 Many drawbacks in government act** Founding and operation of Yangling land banks are guided by grass-roots government. Therefore, it may lead to grass-roots government or village collective's excessive intervention for obtaining their own benefits, then it will go against voluntary principle of land circulation, and consequently harm farmers' land use right. Although government wants to set up image of "public servant" and "public welfare person"<sup>[6]</sup>, according to the Public Choice Theory, politicians, bureaucrats or state agents, like individuals of private economy, are "economic men" and also personal benefit pursuers<sup>[7]</sup>. It is true that government has been providing many related policies and adopts land banks to provide free services for transactional parties in the course of land circulation, but there are still unreasonable points. (i) From the starting point of founding land banks, it is oriented towards land use demand of Yangling Demonstration Park, rather than to-

wards farmers' demand, so it is easy to neglect farmers' benefit. (ii) From the land expropriation of land banks, although some farmers are unwilling to transfer their land, government forces them to transfer their land at unified price. (iii) From the pricing of land rent, government fixes the price for 20 years with

relatively stable annual increase of 10%, which can not cover the rental depreciation due to price rise or inflation. The existing land rent floating arrangement lacks variation factors, so it is not favorable for ensuring benefits of farmers who transfer their land.

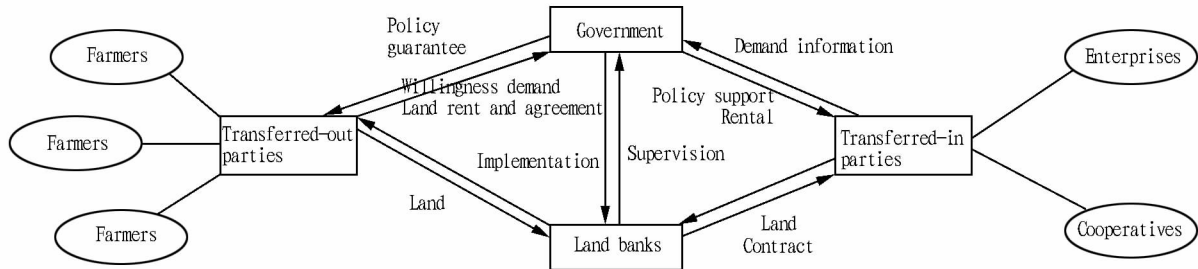


Fig.1 Operation mode of land banks in Yangling Demonstration Park

**3.2 Single institutional function of land banks** Yangling Model land banks are semi-administrative and semi-autonomous, and functions of land banks are established by the district government according to demand for land circulation of Yangling Demonstration Park. Thus, it is essentially different from those services provided for transactional parties. It is intended to complete administrative orders and the service is free, so it lacks internal driving force. Besides, government founds land banks with villages and groups as units to circulate land. It is favorable for specific works to some degree, but functions are extremely limited due to scattered distribution of institutions and lack of professional talent assignment. At present, Yangling land banks only provide basic services, such as signing agreement, providing information, collecting and distributing rentals, *etc.* Other functions, including land consolidation, land price evaluation, supervision and maintenance of land fertility within the renting period, are not available at the present stage.

**3.3 Lack of supporting security mechanism** Government establishes land banks to promote land circulation, which not only provides intermediary service platform for transactional parties, but also guarantees benefits of both parties, especially the weak farmers<sup>[8]</sup>. Although the agreement signed by transactional parties and land banks and related policies provide certain guarantee for benefits of transactional parties, it is still lack of supporting security mechanism, (i) Guarantee for rental collection. Land leasing companies in Yangling Demonstration Park often make payment on an annual basis. However, in the rental period of 20 years, they may be insolvent to pay rental or fail to pay rental due to force majeure. Occasionally, they may terminate agreement in the course of rental period, and land banks have no countermeasures. (ii) Change of land forms. Government determines that enterprises must deal with agricultural production within the park, so as to guarantee the utilization purpose of agricultural land. The infrastructure construction, such as trunk road, motor-pumped well, greenhouse wall, steel framework, office building, *etc.*, will change land forms to some extent. There is problem of how to guarantee farmers' benefits and functions of land banks.

## 4 Recommendations for promoting normal development of Yangling Model land banks

**4.1 Transforming concept and way of government services** Firstly, government should strengthen service concept, concentrate on farmers' demand and start from fundamental benefits of farmers, to fully stimulate farmers' enthusiasm and initiative, bring into play practical subject role of farmers, and to realize objective of agricultural modernization. Secondly, in the course of land circulation, it is required to respect farmers' willingness and guide and promote change of farmers' ideas through policy propaganda. Secondly, in the evaluation of land price, it is preferred to adopt "fixed rental + floating rental"<sup>[9]</sup>, to ensure fair and reasonable of rental. The fixed rental can be determined according to the market price at the same period, and the floating price should be determined as per local GDP, interest rate and inflation rate, *etc.*

**4.2 Combining and adjusting to found Yangling Demonstration land banks** Through combining existing human, financial and material resources, Yangling Demonstration Park established land banks with wide coverage and perfect functions; in immature condition of market operating mechanism, government may temporarily provide relevant services<sup>[10]</sup>. In the aspect of organization, land banks should establish independent organization oriented towards market and society, assign professional talents, adopt divisional system, and be affiliated to government sectors. Operating funds are mainly from government subsidy, to ensure implementation of relevant policies. In the scope of business, apart from basic intermediary services like land circulation, land banks should also provide respective land consolidation, evaluation and maintenance management to realize tracking services of the whole process of land circulation. In the aspect of function positioning, new land banks are mainly policy-related and safeguarding intermediary service institutions.

**4.3 Establishing security system for land banks** Perfect security system is the foundation for smooth implementation of land circulation works and transactional parties' obtaining benefits. The newly-founded Yangling Model land banks should establish service security system from following aspects. (i) Es-

establishing security system for risk guarantee of land circulation. It is proposed to use part of government subsidy to prevent and solve risk problem of rental collection. (ii) Establishing evaluation mechanism for land grading. It is required to improve land consolidation, maintenance and supervision services. (iii) Establishing accident and dispute settlement mechanism. Land banks should pay rental to farmers on a regular basis, and adopt re-renting and subleasing to achieve sustainable operation of land resources.

## 5 Conclusions

In the long run, Yangling Model land banks should gradually be changed from government orientation to market orientation, and from centering on construction demand of Yangling Demonstration Park to demand of transactional parties. At present, the construction of Yangling Demonstration Park project is mainly stressed on its model significance to promoting agricultural modernization, large-scale and intensive development. Under the condition of market economy, to realize wider coverage of agricultural modernization, it also needs effective allocation of resources. Besides, in view of fundamental position of agriculture and public characteristic of agricultural technical extension, government should design and formulate reasonable laws and policies, and guide and guarantee normal circulation of contracted management right of land. As intermediaries, land banks should orient toward market and focus on demand of service objects, to become sincere and lawful third-party of benefit, correctly determine their roles, bring into full play their functions and benefits, and start their own survival and devel-

opment space.

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The micro-credit institutions can charge certain service fees by providing a variety of non-financial services, which can increase the sources of financial income and profitability for the institutions, so as to promote the sustainable development of micro-credit. In addition, these non-financial services can also consolidate and strengthen the relationship between staff in micro-credit institutions and farmers, laying a solid foundation for the sustainable development of institutions.

**4.4 Setting an appropriate level of interest rates to improve the profitability of the institutions** The micro-credit advocates the mode of collecting certain interest by developing appropriate level of interest rates, to help the poor farmers who can not obtain loans from the traditional financial institutions obtain funds. By the loans, the farmers can carry out income-generating activities, which will improve their standard of living and help them cast off poverty and set out on a road to prosperity.

At the same time, the micro-credit institutions collect certain interest to compensate for the cost of providing financial services for farmers, improving institutions' ability to obtain profit, achieving sustainable operation and expended scale of the institutions, so that they can continuously provide a variety of financial services for more farmers and make the farmers benefit from the micro-credit.

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