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Developing Rural Cooperative Finance with Reference to Experience of Foreign Countries

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Abstract At present, rural credit cooperative is an essential part of rural financial system in China. Since the foundation of new China, especially since the reform and opening-up, rural credit cooperative has become the largest financial organization in rural areas. However, its operation mode needs further improvement and service functions are to be strengthened. Therefore, learning successful mode of rural cooperative finance in foreign countries has important theoretical and realistic significance for promoting development of China's rural cooperative finance.

Key words Rural areas of foreign countries, Cooperative finance, Mode, Reference

1 Definition and institutional change of the cooperative finance

In the entire cooperative economy, an indispensable part is the cooperative finance. It participates in cooperation through financial assets. It must satisfy the requirement of such cooperative relationship as not forcing, not autocratic, and no difference. In the middle of the 19th century, the concept and idea of cooperative finance appeared in Germany. In 1850, Schultz set up the first credit cooperative. In *Cooperative Banking*, N. Barou defined the cooperative finance as a non-agricultural group or ordinary handcraftsman association. Without limitation of number of members, the whole members own entire assets. They are not autocratic and arbitrary in undertaking their business. They use deposit of members to provide loan for members with best interest, to realize mutual benefit of members. Thus, the purpose of cooperative financial organization is to help organization members to obtain financial services and suffer no loss. It undertakes non-autocratic and non-arbitrary management. And it is not intended for making money. Compared with other types of finance, the cooperative finance has following features: (i) using mutual-aid and cooperative fund as starting point; (ii) jointly organized by weak groups; (iii) managed in democratic manner; (iv) flexible operation not solely for making profits. With more than 150 years of development, the cooperative finance has been playing an important and irreplaceable role in economic construction of every country. Even in rural economic development of developed countries, it is still an essential organization.

The Institutional Change Theory started in the 1970s. At that time, the research on causes of economic growth exerted great influence on research of economic history, so the institution factor was incorporated into factors influencing the economic growth. Institutions are structures and mechanisms of social order and cooperation governing the behavior of a set of individuals within a given

human collectivity. Institutions are identified with a social purpose and permanence, transcending individual human lives and intentions, and with the making and enforcing of rules governing cooperative human behavior. In economics, institutions are certain procedures, rules, social ethics and morality established to be complied with.

For internal mechanism of evolution and development of rural cooperative financial organizations, this is the result of demand and supply of such institutional innovation. Briefly, such path-dependent problem not only restricts smooth implementation of institutional changes, but also influences economic growth. If there is no error in path selection, it will rapidly promote institutional changes towards preset direction, stimulate enthusiasm of people to the maximum extent, and take full advantage of current resources to do things with highest benefits, so as to satisfy demand of market development and promote economic growth. In this case, it will become backbone fort for further encouraging institutional change, and then each other will become mutual reason and result and speed up benign cycle. However, if the path selection is wrong, institutional changes will fail to bring increasing benefits to the majority, but will let few privileged people enjoy benefits. As a result, such institutional change will be objected, deteriorate partial cooperation, disrupt market order and accelerate economic recession. If this case is true, it will be difficult to retrieve the situation. Such deep lesson once occurred in many developing countries. Therefore, solving "path dependence" problem is a key issue not to be neglected in many countries depending on institutional changes.

2 Several modes of rural cooperative finance in foreign countries

2.1 Rural cooperative finance of the United States

In the beginning of the 20th century, in the situation of economic depression, the United States started establishing rural cooperative financial organizations in certain communities on the non-forcing, equal and reciprocal principles. These cooperative financial organiza-

tions took non-competitive financial mode, provided credit loan for organization participants, implemented "one vote system" and independent and democratic management method. In 1934, the United States passed the *Federal Credit Union Act*, which determined policies of credit unions in legal farm. By now, there are about 11 145 rural cooperative financial organizations in the United States. Spreading all over the country, they are mature rural financial organizations in the United States. At current stage, total assets of the whole credit unions in the United States have reached 411 billion USD, the balance of deposits is about 360 billion USD, the loan balance is about 253 billion USD (accounting for 31% of the entire total balance of rural loan), and the capital adequacy ratio remains above 11.5%. In the rural credit unions, there are about 76 million workers, accounting for about 1/3 of the entire American population. Such rural cooperative financial organization is relatively perfect, plays an excellent role in supporting rural financial market, and is incomparable for other financial institutions of the United States.

2.2 Rural cooperative finance of Canada Canada is one of the earliest countries launching cooperative campaign. Now, there are 7 683 cooperatives in Canada, about 5 649 are non-financial cooperatives and the rest 2 034 are financial cooperatives. There are 15.3 million cooperative members and 14 600 cooperative enterprises. Canadian financial cooperatives mainly include credit cooperatives, trust cooperatives, and insurance cooperatives. By now, cooperatives with members more than 10 million and assets above 100 billion Canadian dollars have credit branches in 900 communities of the whole Canada. Every year, these cooperatives absorb deposit about 78.8 billion Canadian dollars. Thus, the financial cooperatives in the entire financial market play a noticeable position in Canada. They are important and successful cooperative financial organizations in Canada. Therefore, current rural cooperative financial cooperatives are irreplaceable at the rural financial market.

2.3 Rural cooperative finance of Japan At present stage, Japanese rural cooperative financial institutions are financial organizations set up with farmer associations as major objects. These rural cooperative financial organizations are associations of weak and small economic entities (such as farmers and individual industrial and commercial entities) in rural areas of Japan. To protect their economic benefits and raise their economic and social status, they take impartial and undifferentiated principle as basis, take mutual aid and non-group independence and non-forcing as basic principle, to pursue common prosperity and ensure fundamental benefits of all cooperative members. Their operation modes include three levels. The first level is farmer association cooperative financial organizations, specially handling deposit, loan, transfer and settlement of account; the second level is county credit agricultural cooperative, specially assisting all farmer association cooperative financial organizations in managing funds (there are about 47 county credit agricultural cooperatives in Japan, mainly undertaking settlement of agricultural credit account, ad-

justing fund surplus and deficiency, and normal application of agricultural credit funds); the third level includes Central Cooperative Bank for Agriculture & Forestry. In sum, since the foundation, the farmer association cooperative financial organization has been very successful in the whole Japan.

2.4 Characteristics of cooperative finance in the United States, Canada, and Japan

2.4.1 Framework characteristics of cooperative financial organizations. Generally, most rural cooperative banking systems of foreign countries mainly consist of three levels: (i) low level: grassroots rural cooperative banks directly facing to customers; (ii) intermediate level: regional rural cooperative bank with larger range; (iii) top level: central rural cooperative bank. These rural cooperative banks are formed from bottom to top. Besides, capital funds of these banks are different. For local rural cooperative banks, the capital funds come from natural person or enterprise buying shares; for rural cooperative banks at intermediate and top levels, the capital funds are owned by the cooperative banks at lower level. In this way, each level will perform its own functions and not overstep its authority.

2.4.2 Characteristics of operation mechanism. For rural cooperative financial organizations at each level, on the condition of no external factors disturbing operation, the superior level organizations provide assistance and support for the inferior level organizations through financing, financial liquidation, resource sharing, information communication, and personnel training. In addition, the superior organizations should undertake supervision activities, such as follow-up auditing and checking, for inferior organizations. This is to help them evade risks and realize sound and stable operation.

2.4.3 Function characteristics. Bank Laws of foreign countries have a complete and detailed provision on establishment and supervision of rural cooperative financial organizations. For example, *Agricultural Credit Act* and the *Federal Farm Loan Act of the United States*, *Cooperative Bank Act of Canada*, and *Agricultural Cooperatives Act of Japan* operate in the scope of their laws and regulations and are not separated from this scope. In the condition of market economy, cooperative financial organizations perhaps remain in the weak position in non-cooperative activities. Their government has formulated a set of perfect assistance and support economic policies, to help them adapt to market risks, improve operation environment, and promote sound and stable development.

3 Implications of foreign rural cooperative financial development modes for China

3.1 Changing traditional rural credit cooperatives to cooperative financial institutions with many types of organization form It is generally accepted that rural cooperative financial system in foreign countries are relatively perfect and mature. They can provide various financial demands and form of services for different scope, fields and groups of people. Therefore, China should learn from successful experience of foreign countries in rural coop-

erative finance, and implement reform of traditional rural credit cooperatives, to set up different financial form of new rural cooperative financial organizations. When changing rural credit cooperatives, it is not allowed to impose uniformity without examining individual cases, but accord with different time, geographic position, and different demands of groups for finance under classified guidance.

3.1.1 Always adhering to the cooperation principle. China should learn successful experience of foreign countries in developing rural cooperative finance, always adhere to the cooperation principle, and adopt "one person one vote, equal opportunity, and democratic and cooperative" methods, to provide optimum service for members and provide financial support for farmers in cooperation with related departments. Besides, China should turn traditional rural credit cooperatives into real cooperative financial organizations in accordance with local actual conditions. In addition, China may reform rural credit cooperatives into cooperative share type financial organizations. On the basis of adhering to the cooperative mechanism, it is recommended to learn shareholding system and form a new banking institution. Then, it not only can bring into play advantages of cooperative finance, but also can ensure large-scale operation of shareholding financial institutions, to make relations between ownership and management of organizations clearer and corporate governance structure more perfect.

3.1.2 Establishing profit-seeking cooperative financial organizations. With reference to successful experience of foreign countries in developing rural cooperative financial cooperatives, China should establish profit-seeking rural cooperative financial cooperatives. With development of the national economy, overall progress of the society, constant increase in profit of rural cooperative financial organizations, and constant change in levels of effect object, China may properly establish profit-seeking cooperative financial organizations to adapt to market demands. At the same time, in accordance with actual situation of the whole China and vast rural areas, it is recommended to carry out comprehensive reform of property right system in economically developed areas, to make property right of traditional rural credit cooperatives clearer, and transform traditional rural credit cooperatives into regional shareholding financial institutions with independent operation, management and development and assumption of risks, such as village or town banks, urban commercial banks, and private banks. They can take the method of merge of rural credit cooperatives in different regions, or commercial banks, shareholding banks, and foreign-funded banks buying shares of rural credit cooperatives.

3.2 Guiding non-governmental finance to walk to "sunny place" from "dark place" through legislation procedure

With reference to experience of foreign countries in using laws and regulations related to rural cooperative financial organizations, China should formulate and improve related laws and regulations, reorganize rural non-governmental financial institutions according to different types and characteristics of demands of different levels

of financial organizations, to make them become legal financial institutions. For example, China can learn Japan to formulate proper laws and regulations suitable for China's rural cooperative financial organizations to regulate them. These rural cooperative financial organizations should comply with laws and regulations. Then, government will not need to regulate them by "strike-hard" method. Besides, it is no longer to suppress market in demand through imposing uniformity without examining individual cases. Also, it is required to accord with local conditions, correctly regulate and dredge acts of rural cooperative financial organizations, to make them become legal through government legislation. Specifically, following methods may be taken.

3.2.1 It is recommended to improve various laws and regulations, such as Law of Non-governmental Financing, to really protect non-governmental finance. This will not only reduce borrowing rate of rural finance, but also reduce their moral risk and possibility of adverse selection, to really improve dual structure of rural financial market.

3.2.2 Financial supervision system of the whole country should cover rural non-governmental finance and ensure effective supervision of rural non-governmental finance. It is expected to really legalize those rural non-governmental financial organizations with large scale and excellent management system, and to make them walk on the development road of benign cycle. For those diehard rural non-governmental financial organizations and those violate and disrupt normal operation of rural financial market, it is required to resolutely strike at illegal operation and suppress them.

3.2.3 The supervision system of rural non-governmental finance should be established in accordance with multiple-level, clear, unbiased and reasonable principle, and operate in market-oriented methods, and entrance and withdraw mechanism should be prompt and effective.

3.3 Cultivating new rural cooperative financial organizations China should learn successful experience of Canada, the United States, and Japan in rural cooperative financial organizations, provide necessary financial support for setting up rural cooperative financial organizations at early stage, and withdraw the original support funds when they get on the right track. In fact, the relation between the state and such rural cooperative financial organization is only a simple relation. Generally, these rural cooperative financial organizations are launched and established by local farmers, so they are regional cooperative financial organizations. They save idle money in the form of deposit to provide funds for those having fund demand. To ensure sound and stable operation of those rural cooperative financial organizations, reasonable internal control structure must be set up, because original reform of traditional rural credit cooperative system has many uncertain factors. To satisfy comprehensive demands of rural financial services, it is required to establish cooperative financial organizations really suitable for rural areas. What's more, cooperative financial organizations should have perfect management structure. General

data loading and display of webpage content. This not only ensures smooth browse of members in the process of shopping, realize excellent shopping experience, and greatly reduce website traffic of e-commerce enterprises and server burden.

4.3 Payment realization technology This e-marketing platform adopts flexible and convenient payment methods: cash on delivery, credit card on delivery, score payment (online recharge), and third-party payment platform (such as UnionPay, Alipay, and 99Bill).

4.4 MVC framework development This e-marketing system adopts MVC (Model View Controller) architectural pattern. MVC a software architectural pattern for implementing user interfaces. It divides a given software application into three interconnected parts, so as to separate internal representations of information from the ways that information is presented to or accepted from the user. The model directly manages the data, logic and rules of the application. A view can be any output representation of information, such as a chart or a diagram; multiple views of the same information are possible, such as a bar chart for management and a tabular view for accountants. The third part, the controller, accepts input and converts it to commands for the model or view. MVC makes model classes reusable without modification and also makes the view reusable without modification. This development mode is favorable for labor division and cooperative development, increasing development efficiency, favorable for update of website layout without modification of business logic, and also favorable for operation and maintenance of the system.

5 Conclusions

In this study, we introduced the e-marketing system for fresh agricultural products. This system adopts PHP based MVC framework technology and the database adopts Oracle database. This system has already started providing platform construction and operation and maintenance services for many agricultural product e-commerce enterprises, such as Shanghai Agriculture Information Co.,

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form includes fund mutual-aid cooperative and specialized cooperative, and so on. The representative assembly is responsible for electing the council and the board of supervisors, to jointly decide major matters and development direction of cooperative financial organizations, to make them become real cooperative financial organizations of farmers. In addition, it is required to establish perfect market access system. Cooperative financial organizations should be registered in local area. Their scope of business and mode of business operation should be clearly determined in legal form. Especially, regional range and number of participants should be accordance with related provisions. Finally, detailed information should be disclosed, to make partici-

Ltd and Jinhuize Agricultural Product Marketing Cooperative. Since its operation, this system has realized the objective of win-win of three parties: (i) specialized farmers' cooperatives expanded their marketing channels, increased farmers' income, and enhanced farmers' enthusiasm for planting agricultural products; (ii) e-commerce enterprises got familiar with operation mode of fresh agricultural product marketing, expanded their business scope, and increased their profit; (iii) consumers can purchase desired fresh agricultural products through this platform. Thus, construction and operation of this e-marketing system for fresh agricultural products greatly promote rural informationization of Shanghai and also play a model and leading role in construction and application of fresh agricultural product e-marketing system in other domestic regions.

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pants know the transaction process and their rights and obligations and risk to be assumed^[4].

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