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

*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.*

Implications of Foreign Farmland Financial Development for Financial Service Innovation in China's Rural Areas

Jicheng SU, Hongjuan LI*

School of Civil, Commercial and Economic Laws, China University of Political Science and Law, Beijing 100088, China

Abstract Currently, there are many problems requiring to be solved urgently in the rural economic development in China, including farmers' difficulties in getting loans, difficulties in agricultural financing of small and medium-sized enterprises, disconnection of funds chain and serious information asymmetry. The roots of these problems are inadequate financial support and single as well as backward service pattern. The development of rural economy and improvement of farmers' life depend in large measure upon rural financial service system. Rural financial business system in western developed countries mainly consists of policy finance, cooperative finance and commercial finance[1]. Development of land finance provides powerful fund circulation for rural finance. Western countries have relatively advanced legal systems and policies for rural financial support with land mortgage and land guarantee as the main methods, which can be used as reference, such as construction of rural financial system, innovation of rural financial service as well as supervision and control of rural financial risks. Through introducing relevant features of foreign farmland finance, this article discusses service innovation in the reform of China's rural financial system.

Key words Land finance, Financial support, Rural finance, Service innovation

1 Analysis on the relations between reform of rural financial system and development of farmland finance in China

Currently, China's rural economic development is accompanied with various issues including farmers' difficulties in getting loans, difficulties in agricultural financing of small and medium-sized enterprises, disconnection of funds chain and serious information asymmetry. These problems are closely related to the weak financial support system and single mechanical service pattern in China's rural areas. With the approaching of reform of economic management system and financial institutions, financial instruments with the capitalization of farmers' land rights as the core will be popular. Effective integration of current land right system and financial instrument innovation not only directly affects the assessment of land system reform and financial institution reform but also determines the protection of peasants' land rights and interests. In foreign countries, funds circulation and operation mode with land as the breakthrough point have actively enriched the content of financial system. Providing special land development and utilization business is a shining point. Special financial institutions like real estate mortgage banks and land banks have emerged successively in these countries , whose business has developed from single deposit and loan from various land financial business. Land finance mainly refers to a kind of monetary and capital financing with land as the media, effectively organizing and dispensing monetary funds in land area through different credit forms, means and tools[2]. In brief, land finance is capital financing related to land assets[3]. In land finance activities, the bank is generally regarded as a central hub. Land finance is divided into farmland finance and urban land finance. Farmland finance is defined as financial activities on agricultural land, such as providing financing service for farmland acquisition, improvement and production. However, urban land finance means finance on urban land, like providing financing service for the exploitation, construction, operation and consumption of city land and the buildings. Methods of land finance consists of direct finance like land trust and indirect finance like land mortgage[4]. Seen from those countries where land finance has developed effectively, the development of land finance business has great significance in promoting the rational exploitation and optimized utilization of land, improving agricultural-stock production and providing capital source for farmers' smooth and large-scale production. Besides, it can also be helpful in controlling capital risks of financial institutions like banks as well as developing innovation service of intermediary business. Western countries have established land banks specialized in operating land financial business to support farmers and develop agricultural economy. Roughly estimated, loan and investment in land development, utilization and operation of banks in the USA, Germany and Japan has accounted for one third of the total amount[5]. Compared with others, land is a very good collateral with incomparable superiority and specialty, but it is easily to be affected by policies and thus requires governmental intervention and guidance. Compared with other populations, Chinese farmers have low income and few capital sources. They do not have many goods for effective mortgage and guarantee except for labor force and land operation rights . Rural financial service system plays a significant role in developing rural economy and improving farmers' life. The report of the 18th CPC National Congress placed rural system reform on the agenda

Received: November 28, 2014 Accepted: December 24, 2014
Supported by Doctoral Students' Creative Practice Project of "Research on Legal Problems about Capitalization of Rural Land Rights in China" in 2012 Launched by China University of Political Science and Law (2012 BSCX07)
* Corresponding author. E-mail: 15304710606@163.com

again, making the reform and innovation of rural financial system inevitable. Farmland finance theories in China germinated during the rural economic crisis in 1930s, which is a breakthrough reform in China' economic thought history[6]. However, confined by China's land property right system and lagging land marketization, development of farmland finance is confronted with immature legal system, mismatched theory and practice as well as coexistence of mobilized set-up and long-term mechanism. Perfect rural financial system and matching policies can provide certain theoretical basis and practical support for the innovation of rural financial system.

2 Farmland finance and rural finance at abroad

Foreign farmland finance is mainly divided into three categories, namely cooperative land finance (like Germany and Taiwan), specialized farmland finance (like the USA and the Philippines) and policy farmland finance (like Japan). These three financial modes generally coexist in a country.

2.1 Germany Germany is the cradle of land finance system, where farmland finance system began in the 18th century, gradually developed into an important means for rural financial support and has became popular in other European countries. Main features of rural finance system of Germany are legal guarantee of the state and regional laws, joint management from the central and regional government, coordinated operation of public and private institutions, risk control of specialized institutions and supervision of the banks. Rural financial institutions are mainly cooperative organizations and have gradually developed to be complex from the initial private land credit institutions to public financial system after years of reforms, such as Land Mortgage Credit Association, Land Credit Bank, Land Rent Bank and Germany Central Bank of Agriculture[7]. Farmland finance has played a leading role in rural financial reform in Germany and financial institutions like credit banks and savings banks have exerted positive effect on the development of rural economy. Rural financial business institutions in Germany mainly consist of central cooperative banks, regional cooperative banks and grass-root cooperative banks. Capital funds in grass-root cooperative banks are supported by natural persons or enterprises while those in regional and central cooperative banks are mainly from the next level and sometimes government also hold certain shares. Rural cooperative banks at all levels all possess independent self-operation right, but under certain automatic management of the above-level institutions, whose main task is to provide service. Risk control and prevention of financial supervision departments are greatly emphasized in Germany and rural finance is under supervision according to *Federal Bank Law*, *Credit Law*, *Savings Bank Law*, *Cooperative Bank Law*, *Law of Securities Account Management and Law of Federal Insurance*.

2.2 America In the beginning of the 20th century, there were frequent and long-lasting agricultural crisis in America because of farm product surpluses, which caused great damage to agricultural development. In order to adjust agricultural mechanism and eliminate crisis, American farmland finance has shared the responsibility of reforming agricultural economy. During the perfection of farmland financial system, a series of specialized agricultural financial institutions at all levels have been established with great national support[8]. One of the main measures of state intervention in agriculture is to establish and perfect professional agricultural credit system, which refers to the rural financial structure with federal land bank as the subject, supported by agricultural loan cooperatives and complemented with various non-banking organizations. These specialized rural financial institutions mainly depends on absorbing share capital, granting land bonds and extracting surplus reserves to collect funds. Meanwhile, America has established perfect matching risk supervision mechanism. Compared with other banking supervision systems, rural financial supervision has special features and modes. Firstly, it is supervised independently. Secondly, it has developed and perfect network of risk consultation service. Lastly, it has perfect insurance system[9]. The value and importance of land mortgage are highly emphasized in practical operation. For example, when rural financial institutions grant loans, mortgage with land and houses are favored. Besides, positive functions of various trade associations should be largely exerted to strengthen the supervision on financial institutions.

2.3 Japan Land finance in Japan started from the end of the 19th century. In order to revitalize agricultural economy, Japan implemented a comprehensive rural financial reform and innovation based on the actual conditions in the country as well as experiences from developed European countries like Germany, providing much political support and preference. With the reform of financial system in Japan, rural cooperative finance has gradually taken up the leading position and the pattern with private cooperative organizations as the subject supported by institutional finance has formed. Based on long-term credit, long-term capital loans are provided for agricultural business like reclamation and transformation. Farmers are provided with loan service with real estate mortgage for buying agricultural production materials like fertilizers and machinery[10]. During the reform of rural financial system, Japan has established relatively perfect agricultural financial credit guarantee system and further developed mutual assistance system for loss compensation and risk prevention during agricultural management. Various preferential policies including deposit insurance system, mutual assistance system, agricultural disaster compensation system① as well as agricultural credit guarantee and insurance system are the effective guarantee for rural finance.

2.4 The Philippines Philippine land banks have achieved outstanding progress in providing micro-financial service for rural areas. As a part of farmland reform, Philippine land banks helps to buy agricultural land and then sell the small pieces to peasants or for renting. On July 21, 1973, the president signed the act of reviving bank and endowed land bank with universal banking license as well as the social responsibility of promoting rural development. The act has granted land bank with more power, allowing it providing loans for agriculture, industry, house building and purchasing as well as other production enterprises. Besides, land

bank has also been allowed to grant loans to farmers' cooperatives and associations in order to promote crop production and selling as well as the purchase of necessities. Currently, land bank is the largest state-owned bank in the Philippines and consists of a large amount of rural branches[11].

2.5 Taiwan Rural finance and cooperative finance in Taiwan are integrated together to form a perfect specialized financial system. There are many rural financial dots in Taiwan, which form a rigorous financial service network. The management system of farmland finance is rigid and regional. Rural funds are supported by many departments and agricultural loans are large-scaled[12]. Taiwan land bank is specialized in land finance and agricultural financial business. In recent years, Taiwan land bank has also developed multiple service in financial field and is geared to the international conventions.

3 Implications of land financial business promoting rural financial system development at abroad on China

The research and analysis on farmland financial system in the USA, Japan, the Philippines and Taiwan as well as the actual conditions of China can provide some references for reform and innovation of Chinese rural financial institutions.

3.1 Developing farmland financial system, establishing and perfecting land property right market to provide more room and chance for innovation of rural financial system In the above mentioned countries and regions, farmland finance is an important section of the value chain of developing rural financial system. Development of farmland finance provides effective guarantee for the innovation of rural financial business. Clarified ownership has great significance in China's financial system reform. Clear ownership is the precondition of the asset capitalization because only with complete and definite rights can the assets achieve values and benefits in circulation[13]. Based on the experience from Taiwan and the Philippines, legal system of land property ownership in China should be first perfected and developed. Reform of rural financial system can be carried out in stages. Credit cooperatives can be reorganized to be stock cooperative banks based on the experience from Germany and America and proportion of capital demand can be properly adjusted to establish rational capital structure mode. For example, credit cooperatives can be gradually transformed to be real cooperative financial institutions in those areas with underdeveloped economy.

3.2 Perfecting various policies to create healthy environment for rural finance There is common feature in foreign countries with relatively developed rural finance. There are matching legal policies providing favorable environment for financial innovation and development. Matching legal systems like Land Law, Land Management Law, Guarantee Law, Bank Law, Law for Promoting Small and Medium-sized Enterprises, Law of Farmers' Specialized Cooperatives and Insurance Law should be perfected in China. The top-down structure should be reformed with political support and preference like in Japan in order to create a good environment for rural financial development. Moreover, current financial technology should be improved to ensure the stability of political support as well as the sustainable development.

3.3 Strengthening farmland use right and using present "local" rural financial institutions to develop "financing" business Based on the experience from the above mentioned countries, land management right can be the mortgage object to develop business of rural financial institutions with rural savings banks and credit cooperatives as the entity. In China's current rural financial system, rural credit cooperative has a history of more than 50 years with the largest coverage, most popular business as well as the closest connection with farmer's production and life. Business of rural credit cooperatives should be adjusted and innovated to provide various kinds of direct and indirect farmland -related financing. With governmental support and legal establishment of rural cooperative financial institutions, public and private organizations should coordinate and cooperate with each other to build a perfect system of financial risk supervision. Based on experience from the Philippines, small-sized enterprises with potential capability should be particularly developed into important clients with special management and service. Specialized loans and other financial derived business aiming at micro-firms can be developed.

3.4 Establishing and perfecting credit rating system for risk control and supervision Based on the experience of reform of foreign rural financial institutions, matching mechanism of risk prevention as well as credit rewards and punishment in China should be perfected as soon as possible. Meanwhile, other financial entities like rural credit cooperatives and insurance funds companies with mutual assistance should be established through legal and political guarantee to increase the risk prevention capability of rural finance. Credit rating system can be used to evaluate the credit capability, providing reference for capital release and financing as well as convenient banking service. Positive effects of autonomic departments like the state supervision departments and bank associations should be fully exerted in order to improve the automaticity of banking service as well as optimize service quality.

3.5 Rationally guiding and regulating folk financing business and creating a mode of rural finance with the joint development of various financial organizations and service Based on experience from Germany and Japan, private organizations can be reformed or transformed to be complementary to public organizations. Advantages of private financial organizations should be exerted, making them a highly effective financing channel in rural financial system. Innovation of rural financial mechanism should be actively promoted during the joint development of various financial organizations in order to build a mode of rural financial service with comprehensive business, electronic transaction, diversified products and personalized service and further improve the core competitiveness of rural financial organizations.

(To page 38)

cords is not determined by one or some of the factors but by the three-level hierarchical complex system consisting of 7 factors (policy makers' education level, breeding scale, feeding length, degree of specialization, whether to join the industrial operation organization, government support, and awareness of breeding records). The awareness of breeding records and government support are the apparent direct factors; whether to join the industrial operation organization and degree of specialization are the middle indirect factors; policy makers' education level, breeding scale and feeding length are the underlying factors.

4.2 Policy recommendations (i) It is necessary to strengthen training and improve the cultural quality of sheep-raising farmers. There is a need to set up training courses and use the channels of radio, television, Internet and newspaper columns to enhance the sheep-raising households or farms' standardized feeding and management philosophy, and introduce technical and management skills concerning the establishment of breeding records to the majority of sheep-raising households or farms. (ii) It is necessary to strengthen the publicity and education to enhance sheep-raising households or farms' confidence in production and operation, keep sheep-raising households or farms' optimistic attitude toward sheep breeding, and expand the breeding scale of sheep-raising households or farms. (iii) It is necessary to give play to the role of government departments to speed up the optimization of the spatial layout of the sheep industry. Relevant government staff should scientifically develop the sheep industry development plan, make a clear direction for the development of sheep industry in different regions, and expand and accelerate the development of main sheep producing areas. (iv) It is necessary to promote the development of the sheep industrial management organization and give full play to the supervisory role of the organization to achieve the effective integration of upstream and downstream information.

References

[1] WANG WM. On constructing breeding archives for breeding farms[J]. China Animal Husbandry Bulletin,2011(8):76. (in Chinese).
[2] WU XF. On breeding archive management of livestock and poultry farm [J]. China Animal Husbandry Bulletin,2012(4):73 -74. (in Chinese).
[3] YANG YH. Problems in breeding archive management of livestock and poultry farm and the suggestions [J]. Yunnan Journal of Animal Science and Veterinary Medicine,2012(5):39. (in Chinese).
[4] SHAN LJ. The prominent problems in establishing breeding archives for breeding farms and the countermeasures [J]. Swine Industry Science,2013 (4):106 -107. (in Chinese).
[5] YANG MC, WANG GFR. A brief analysis on the establishment and management of livestock breeding archives [J]. The Chinese Livestock Breeding,2013(4):28. (in Chinese).
[6] GUO SB. A brief analysis on the establishment and management of livestock breeding archives of breeding farms [J]. The Chinese Livestock Breeding, 2013(3):9 -10. (in Chinese).
[7] PEI YH. Exploration and analysis on strengthening the establishment of livestock breeding archives informatization [J]. Inside and Outside Lantai,2014 (2):40. (in Chinese).

(From page 31)

4 Conclusions

China's land financial system is still in the primary stage. Development and perfection of right mortgage system like land contractual operation right, usufructuary right and use right can provide more options and designs of service mode for rural financial business. The current land policies in China possess the features of traditional land ownership as well as the actual conditions of China, therefore foreign experience should be rationally taken into account. Developing farmland financial business, perfecting land right system, fully utilizing the present rural financial service network, introducing creative financial ideas and technologies to the countryside, emphasizing financing business of small-scaled rural economic entities and expanding intermediary business can be considered for the innovation of rural financial system. This article aims to provide some ideas and perspectives for the reform of China's current financial system, especially in rural areas.

References

[1] LI SJ. Study on financial problems of rural land cooperation[M]. Beijing: China Financial Publishing House,2010. (in Chinese).
[2] BI BD. Land economics in China[M]. Beijing: China Renmin University Press,2006:385. (in Chinese).
[3] ZHOU C. Land economics principle[M]. Beijing: The Commercial Press, 2003:387. (in Chinese).
[4] MBA. Land finance[Z]. http://wiki.mbalib.com/wiki/. 2012 -11 -23. (in Chinese).
[5] BI BD. Land economics in China[M]. Beijing: China Renmin University Press,2006:389. (in Chinese).
[6] WANG F, MIAO DG. Rural land finance supply during the transition period of modernization: Institutional design and implementation effect——The rural land financial thought in the 1930s and 1940s in China and its realistic significance[J]. Journal of Finance and Economics,2013,39(1): 38 -48. (in Chinese).
[7] Krahnen, Schmidt. The German financial system[M]. Oxford University Press, 2003:33 -53.
[8] LI SJ, NIU GY. Study on American agricultural finance system evolution [J]. Finance Teaching and Research,2002,(1)23 -25. (in Chinese).
[9] ZHANG Z. Inspiring and experience on the construction of America agricultural finance system[J]. World Agriculture,2008(3): 30 -36. (in Chinese).
[10] GUANGU JZ. Rural land system of Japan[M]. JIN HY (Translator) Shanghai: Shanghai Sanlian Bookstore Press, 2004:5 -35. (in Chinese).
[11] ZHANG HR. Land bank of the Philippines' successful operation strategy and inspiration[J]. Journal of Xidian University(Social Sciences Edition), 2011,26(6): 69 -72. (in Chinese).
[12] SNG WX, LUO JC. Rural land financial system of Taiwan and its reference value for Chinese mainland[J]. Journal of Luoyang Normal University,2003,22(4): 37 -40. (in Chinese).
[13] HUANG T. Study on Chinese farmland property collective right[M]. Chengdu: Southwestern University of Finance and Economics Publishing House,2010:135. (in Chinese).