



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.*

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.

Financial Support for Farmers' Cooperative Organizations—A Case of Yunan Province, China

CHEN Ying*

Kunming Metallurgy College, Kunming 650033, China

Abstract In the paper, the status quo of the development of farmers' cooperative organizations in Yunnan Province is introduced. And then a series of problems exist in the financial support of farmers' cooperatives in Yunnan is analyzed, covering the unitary mainstay of credit and loan supply; inadequate credit and loan supply caused by farmers' lack of security and mortgage; farmers' difficulties in loaning from banks or other financial institutions; single financial service, which can not satisfy the demands of farmers; the private loans are active while lacks right direction and guide; the outflow of capital in rural areas has limited the development of rural economy. In view of the above mentioned problems, countermeasures and relevant suggestions are put forward, namely increasing the subjects of the loan and credit supply and expanding the financing channels. Therefore, the spheres of business of the Agricultural Development Bank of China should be expanded. Besides, the support from Agricultural Bank of China for rural construction should be strengthened and the major role played by rural credit cooperatives in rural finance should be enforced. In addition, the innovation of financial products should be highlighted; the appearance of private financing should be allowed; financial support from the government should be increased and the preferential policies for taxes and fees should be implemented.

Key words Farmers' cooperative organizations, Financial support, Yunnan Province, China

At present, there are more than 150 000 registered farmers' cooperative organizations in China, whose members come from 23 600 000 households, accounting for 9.8% of the total rural households. Besides, they motivate 32 450 000 non-membership households, which accounting for 13.5% of the total number of peasant households. Farmers' cooperative organizations in China have experienced the process of sprouting, self-developing, all-around development and then went to the normal track. In October 31, 2006, twenty-fourth session of the tenth national people's congress has passed the *Law of Farmers' Cooperatives*, which marked that the development of farmers' cooperatives in China has entered a new stage. Since the reform and opening up, driven by the strong force of economic development, financial industries in China have made significant progress. However, due to the disparate development of financial geography, the development in rural and urban areas is imbalance greatly. What's worse, the serious rural financial limitation and rural financial marginalization have become the choke point for the development of rural economy. Therefore, I probe to the problems of financial support of farmers' cooperative organizations and propose several countermeasures, so as to provide theoretical reference for the financial support of farmers' cooperative organizations.

1 The status quo of the development of farmers' cooperative organizations in Yunnan Province

In recent years, Yunnan Province has accelerated the construction of rural transportation network and farmers' cooperative organizations, and the farmers' cooperative organizations

of it have made great progress. According to the statistics, by the end of 2006, there were all together 2 858 farmers' cooperative organizations in Yunnan Province, among which 878 were farmers' cooperative organizations with the total 72.8 members, accounting for 31% of the total number of farmers' cooperative organizations. Farmers' cooperative cooperatives in Yunnan Province motivate 1 483 000 households all together, and the aggregate income was 1.04 billion yuan, of which the profits were 0.19 billion yuan. In addition, the bonus shared by the members was 35.245 million yuan and the total sum of the returned surplus was 44.901 5 million yuan. In 2006, farmers' income has increased by 103.1 yuan for participating farmers' cooperative organizations. In addition, the farmers' cooperative organizations have increased by 299 with the increase rate of 52% against that in 2006^[3].

There are three basic types of farmers' cooperative organizations in Yunnan Province^[1]. The first type is the organizations motivated by pillar industries. This type of organizations is companies plus farmers' households. Enterprises cooperate with farmers by signing contracts. The enterprises take the responsibility of providing improved seeds, germ chit, agricultural capital, technology, information, marketing and some other services, while farmers take the responsibility of producing and operating. The two bodies are independent interest participants and through the motivation of pillar industries to help farmers to shake off poverty and become rich. For example, in Baoshan, a city of Yunnan Province, the Horseradish Exploration and Development Company Limited has formed the pillar industry for motivating the increase of farmers' income gradually. The second type is the cooperation between government officials and farmers. This type is launched by the government and the relevant departments provide capitals, technology and other services, and guide the farmers to operate. The last type is the or-

ganizations lunched by the farmers themselves. This kind of organizations is sometimes launched by rich households in rural areas. The organizations provide technology, information and so on. Because of the mutual interests of peasant households, both of the households are active, and this kind of organization is the real interest community.

2 Problems of financial support for farmers' cooperative organizations in Yunnan Province

2.1 The credit and loan supply is insufficient and farmers are hard to get loan

2.1.1 Unitary subject of credit and loan. With the development of rural economy, the demands of farmers' cooperative organizations on loan have increased correspondingly. From the perspective of credit and loan supply of rural financial institutes, there are rural credit cooperatives, Agricultural Bank of China, Agricultural Development Bank and some other cooperative financial institutions, commercial banking and policy finance institutions, but their structures have grave defects, and they have not fully displayed their functions^[2]. Since the Agricultural Development Bank of China is policy bank, and its loan mainly focuses on food, cotton and oil, furthermore, its requirement on loan is very high. Thus the loan subjects of farmers' cooperative organizations have only the Agricultural Bank of China and rural credit cooperatives, however, the Agricultural Bank of China would supply new loan, only when the non-performing loans had been reduced to a certain proportion. As a result of the complexity and reality of the formation of non-performing loans in financial institutions, it is hard to reduce the non-performing capital to the required proportion, so the new loan could not be supplied. Hence, rural credit cooperatives become the unitary channel for credit and loan supply.

It is known that, in 2009, over 70% of the newly added rural loans come from rural credit cooperatives in Wenshan, a city of Yunnan Province, and the rural credit cooperatives become the mainstay of agricultural credit and loan. However, the rural credit cooperatives alone can not meet the demands of all farmers and their financial services can not satisfy the demands of small and medium-sized enterprises^[6]. Rural credit cooperatives can not shoulder the burden of rural financial development independently, so the loan subjects for farmers' organizations should be increased.

2.1.2 The shortage of security and mortgage. Agriculture is the fundamental but weak industry in China. Agricultural production highly depends on the natural environment and its level is low in China, meanwhile, the agriculture in China faces the challenges of natural disasters, market risks and some other uncertain factors. However, most rural financial institutions are based on security, so farmers' organizations would get loans under the conditions of providing certain security and mortgage and preparing the complete procedures of security and mortgage.

The farmers' cooperative organizations are mainly loose mutual aid organizations. Some of the capital of these organizations is owned by the individuals; the other kind of capitals is

in the form of fresh and live agricultural products. But the later one is hard to store and handle, so it can not be used as effective capital for security. What's more, for some formal financial institutions, these pledges do not have much value, and although they accept them, it is hard for them to find an auction market to cope with them. Hence, farmers' cooperative cooperatives can not get the credit support from rural financial institutions. Meanwhile, the intermediary agencies of rural finance are incomplete, there is no specialized guaranteed fund or institutions to provide guarantee for farmers' households as well as for farmers' cooperative organizations. Besides, the complex evaluation procedures, high charges and long time of financial institutions to the security and mortgage of loan sophisticate the procedure of security and mortgage, so most farmers' cooperative organizations are reluctant to loan by security and mortgage, which lead to the short supply of rural credit and loan of farmers' cooperative organizations.

2.2 The unitary financial services can not meet the demands of economic development

(1) From the perspectives of financial institutions, with the gradual shrinkage of rural outlets of state-owned commercial banks, the branches of these banks set up in the county level or lower level have only the basic services of saving, lending remitting and other services, and the service hub has transferred to cities. Rural credit cooperatives play a major role in rural financial system. The vast majority of farmers' cooperative organizations in Yunnan Province open accounts in rural credit cooperatives, but the settlement means of rural credit cooperatives are lagged, for they rely on the payment system of People's Bank of China to handle fund remittance and transfer. Therefore, it can not meet the rapid and efficient payment demands of farmers' cooperative organizations^[3].

(2) From the perspectives of services, the financial products lack innovation and the financial services of commercial banks are unitary, so they can not meet the diversified financial demands of agriculture. The financial institutions still provide traditional services, but the services like commercial paper financing, agency financial management, information providing and the like are absent. In rural finance, the intermediary services are rare. At present, there are only the traditional services of remittance and settlement, but the services such as mortgage, security, demand draft, collections and payment transfer and the like are rare. Besides, the services of loan types in Yunnan Province are unitary, for example, except the small credit loans and rare guaranteed loans, a large number of loans are collateralized mortgage loans, however, the house property and lands possessed by the members of farmers' cooperative organizations can not be used as pledges.

2.3 The private loan is active in rural area but it lacks the formal guide and direction The private loan refers to the loans among citizens, citizens and legal person, citizens and other organizations. As long as the persons concerned agree that the loans are indentified, then the loans can be regarded as valid, and the mortgage arising from the loan will be valid, but the interest rate can not exceed the relevant upper bound

determined by the law. Since the later 1990s, farmers' cooperative organizations have witnessed the rapid development and their demands on capital have also increased greatly. However, the formal financial support is inadequate, so farmers have to turn to private financing, hence, leading to the prosperous of private loan. Yunnan has the highest proportion of private loan, which accounts for 37.7% comparing with the amount of loan of formal financial institutions.

The private financing plays a positive role in making up for the shortage of rural financing by its advantages, such as simple procedure, simple program, high speed, high efficiency and low rate of non-performing loan and the like. It also smoothes the tension of rural capital supply. However, due to the lack of normalization and guide from formal financial sections, the private financing still has some problems, which can not be ignored. Firstly, the loan interest rate of rural private financing is relatively higher in general, which increase the lender's payment burden. Secondly, both sides of the private loan do not understand each other and there is no effective mortgage and security, so there are great payment risks. If the loan contract is unclear or no loan contract, the rights of borrowers can not be protected and the financial risks will be accumulated. Thirdly, the private loan is mainly launched in secret and in half-open state, so the financial sectors can not effectively supervise them, thus the effectiveness of monetary policies will be gravely affected.

2.4 The outflow of rural capitals chokes the development of rural economy Due to the disadvantages of low interests, high risks and so on, many of the capitals accumulated by agriculture outflow to industries and cities through commercial banks and postal savings, and then the so called "water bump effect" appears.

In recent years, as a result of the strategic adjustment of the four state-owned commercial banks, many of them have moved out of rural area and a large number of the branches are curtailed. Some commercial banks can only provide deposit service but do not provide loan service, they deposit the surplus capitals to the parent bank and then use the capitals adsorbed in rural areas to support urban areas with good economic efficiency. As a policy bank, the Agricultural Development Bank only provides loans to food, cotton and oil rather than to agricultural production. As for China Postal Savings, it has just reformed in recent years so its functions for supporting agricultural have not been fully displayed. Furthermore, rural credit cooperatives focus on the collectively use of capitals, they often deposit the rural capitals to the organizations above county level. And then these capitals will be allocated to towns with large demands, thus the development of rural economy will be greatly weakened^[4]. All of the above mentioned problems cause the insufficient service and support for farmers' professional organizations.

3 Countermeasures and suggestions

Due to the continuous acceleration of the adjustment of agricultural structure and the transformation of operation mode,

farmers' cooperative organizations have increased their demands not only on the sum of the loan but also on the structure of the financial services. For example, they have made new requirement on the comprehension and diversity of services and the innovation and promotion of financial products^[5].

3.1 Increasing the subject of credit and loan and widening the financing channel

3.1.1 Enlarging the business scope of the Agricultural Development Bank and increasing the financial support for farmers' cooperative organizations.

As an important part in supporting the new village construction in the financial fields, it is incumbent on the Agricultural Development Bank to support the development of rural construction, besides, as an only agricultural policy bank, it maintains the interests of farmers. But the business spheres of Agricultural Development Bank are narrow, for its businesses mainly focus on food, cotton and oil, but it is insufficient in supporting the individual loan of farmers and the individual loan of farmers is excluded by the financial support. However, as a bridge for connecting the pillar industries and peasant household, farmers' cooperative organizations provide ideal carrier of farmers' cooperative organizations^[6]. For one thing, farmers' cooperatives can link farmers together and then to loan collectively. Thus the scattered and small loan of individuals will be changed into collective and big loan; For another thing, the Agricultural Development Bank should expand its business scope of loan and select some farmers' cooperative organizations with high level of agricultural industrialization, so as to increase the good customers and to motivate the development of rural economy.

3.1.2 The efforts of Agricultural Bank of China on supporting rural construction should be strengthened. As the main commercial bank in supporting rural construction, Agricultural Bank of China plays an important role in supporting and serving farmers' cooperative organizations. However, in recent years, the support of Agricultural Bank of China on rural construction is insufficient. In order to strengthen the support of Agricultural Bank of China, the branches of it in county prefecture should be consolidated, for one thing, because the branches in county prefecture play a special role in supporting new village construction in terms of accelerating business transformation, serving "three agriculture" concerning agriculture, countryside and peasants, improving rural economic development and displaying the functions of financial channel. For another thing, more credit privileges should be given to branches in county prefecture. The branches should select the well developed farmers' cooperative organizations and small and medium-sized enterprises to support at the same time of focusing on cultivating rural and county-level pillar industries. By the end of August in 2009, the loan balance of small and medium enterprise in Yunnan Province has achieved 57.3 billion yuan, 7.7 billion yuan more than that in the beginning of the year. The branches should further support the medium and high-end customers form the export-oriented industry, high-tech industry, tourism-oriented industry and ecological modern agricultural enterprises. In addition, they should enforce the support of new village

construction and encourage the rural surplus labors to shift to small counties and cities.

3.1.3 The major role played by rural credit cooperatives should be enforced. In recent years, rural credit cooperatives have played an important role in supporting "three agricultural problems" concerning agriculture, countryside and peasant, and in improving the development of rural economy. Yunnan Province has continuously increased the credit input on "three agricultural problems", in the first half of 2009, among the 17.38 billion loans, 15.65 billion is agricultural loan. Rural credit cooperatives have made great contribution to sustain economic growth, ensuring people's well-being and maintaining stability. In deepening the reform of rural credit cooperatives, the rural credit cooperatives should change their operation mechanism, enhance their self-competence, improve the services and well display their functions as the major force in rural finance. Besides, they should strength the support on farmers' cooperative organizations, try to solve farmers' difficulties in loaning and take relevant measures to improve quality and collect credit funds, so as to continuously increase the deposit and loan input. Rural credit cooperatives should select some farmers' cooperative organizations with healthy systems to try to implement the loan credit guarantee system, so as to lower the standard of farmers' cooperative organizations and increase the line of loan of farmers' cooperative organizations.

3.2 The innovation of financial products should be enforced At present, the financial products, especially rural financial products are single, so banks concerning agriculture should set up the concept of customer foremost; figure down the characteristics of operation, financial demands and the credit situation of the service subjects positively, and then according to the principles of "flexibility, diversity and controllability" to provide financial products of the weak point of economy^[7]. Rural credit cooperatives should vigorously open the business of group loan, mortgage loan and commercial paper financing and other businesses. Through connecting with farmers' cooperative organizations, the credit rating of farmers' cooperative organizations will be improved and then rural credit cooperatives will release the credit loan guaranteed by the credits of farmers' cooperative organizations.

In order to solve the "three agricultural problems", Yunnan Provincial government expanded the input of small loan for peasant household, vigorously developed rural small loans and group loans, and encouraged the verified small loan products according to the financial demands of local agriculture, countryside and peasants. These efforts have obtained good results, for example, the small loan has been expanded to 706 towns of 113 counties and the aggregate loan capital has come to 0.579 billion yuan. Meanwhile, Yunnan Province should positively push forward the integration between financial institutions and farmers' cooperative organizations, provide financial support for farmers' cooperative organizations, and solve the financing problems of farmers' cooperative organizations. In addition, the government should intensify the efforts on policy transmission, section coordination, bank lending and other aspects, so as to

promote the development of farmers' cooperative organizations.

3.3 The private financing is permitted to increase financing channels There are two advantages for encouraging the legalization of private financing, standardizing and guiding rural private financing, and for permitting the private financing to enter the financial service industry. Firstly, it can fully develop the tremendous potential of private financing and alleviate the shortage of rural loans. Secondly, under the legal framework, it provides an effective way for guiding the underground private financing to become legal, which effectively dissolve the financial risks and is much more helpful to display its important role in new village construction^[3]. At the same time, the supervision level should be improved and the way for supervision should be innovated, besides, illegal financial activities such as money laundry, speculation on foreign currencies, usury and other illegal financial activities should be firmly cracked down.

3.4 The government should strength the financial support and implement the preferential policies of taxes Agriculture with the characteristics of long cycle and high risks, highly depending on natural resources, badly needs the support of government. The government should strengthen the financial support on farmers' cooperative organizations under the conditions of do not break the fair competition.

(1) In the initial and the primary stage of farmers' cooperative organizations, the financial support from the government can be enforced. The government can adopt unpaid appropriation, for example, it can set up the project funds for the development of farmers' cooperative organizations. And then it can provide some necessary starting funds for farmers' cooperative organizations in the primary stage from the fiscal fund for assisting agriculture and special fund for agricultural industrialization. However, the prerequisite is that fiscal support should not lead to farmers' dependence on it.

(2) As the credit management and administration costs of farmers' cooperative organizations are higher than the ordinary loan, so in order to protect the enthusiasm of financial institutions in loans, the government should fully display its functions in guiding and coordinating the fiscal capitals, and enact necessary preferential policies. The government should arrange certain sum of fiscal capitals for farmers' cooperative organizations and support the farmers' cooperative organizations, thus to create favorable development environment for farmers' cooperative organizations.

(3) The territorial revenue department should provide farmers' cooperative organizations with revenue preference combining with the local conditions. On the strength of implementing the preferential policies for farmers' cooperative organizations launched by the State Administration of Taxation, the revenue department should give preference to relevant financial institutions by the way of sale tax deduction and income tax credit and so on according to the number of loans and the ending balance^[4]. As for the pillar industries launched by farmers' cooperative organizations, the government should give certain revenue preference and exempt the revenue of service income obtained by farmers' cooperative organizations.

(4) The government should supply fiscal subsidies for farmers' cooperative organizations who are well run and have obviously pushed forward the development of "three agricultural problems" concerning agriculture, countryside and farmers. About the items concerning agriculture, the government should give certain priority to farmers' cooperative organizations. For instance, the government can provide raw materials in production terms for farmers' cooperative organizations by directly subsidy the prices, meanwhile, the government should launch a set of laws and regulations for farmers' cooperative organizations, thus to provide basis for the tax deduction and credit preference.

4 Conclusions

Generally speaking, the farmers' cooperative organizations of Yunnan Province still lays in the developmental stage, so there are still many problems and shortages. I just probe into the qualitative analysis of these problems and provide countermeasures, but as for the quantitative analysis of these problems still needs further analyzing. Supported by the governments from various levels and financial institutions, the farmers' cooperative organizations in Yunnan Province will develop better and better.

References

- [1] JIANG ML. The development model of farmers' cooperative organizations—an investigation from Yunnan Province[J]. Jiangsu Rural Economy, 2006(12):67–68. (in Chinese).
- [2] Chongqing Wanzhou Branch of Agricultural Bank of China. Predicament and outlet of financial support for "Three Agriculture" [J]. Guizhou Rural Finance, 2009(4):17–20. (in Chinese).
- [3] CAO LP. Investigation and consideration of financial support for

(From page 3)

growth point, so as to accelerate the development of adjacent villages, to reinforce the linkage effects with overall economy, to share complementary advantages, to connect the growth poles with different grades, and to promote the integration of urban and rural economic development.

3.2.3 Appropriately supporting rural areas under poverty; fully exerting the comparative advantage. Rural areas under poverty have relatively weak self-development and self-accumulation abilities. Without the guidance from the outside, these rural areas are bound to fall into the vicious circle of poverty. Therefore, we should exert the macro-control function of governments, increase financial support for poor areas, give full play to their comparative advantages, and promote the sustained, coordinated and rapid development of urban and rural economy.

References

- [1] LIN YF, CAI F, LI Z. Analysis of regional disparities in the period of China's economic transformation[J]. Economic Research Journal, 1998(6): 12–15. (in Chinese).

- farmers' cooperative organizations[J]. Times Finance, 2009(2):85–56. (in Chinese).
- [4] DING H. Predicament and countermeasures of financial support for farmers' cooperative organizations[J]. China Collective Economy, 2008(5):165–166. (in Chinese).
- [5] The Heilongjiang Branch of Bank of China. Exploration of a new approach to financial support for the development of modern agriculture[J]. Heilongjiang Finance, 2009. (in Chinese).
- [6] WANG AQ, HAN Y. On Xinjiang finance and development of the farmers' professional economic cooperative organization[J]. Finance & Economics of Xinjiang, 2009(2):66–71. (in Chinese).
- [7] ZHANG C. Investigation of the development of farmers' cooperative organizations and their financial support[J]. Reform & Opening, 2006(8):21. (in Chinese).
- [8] KAN XX, HAN XL. Empirical analysis on rural financial support situations and farm's income increase[J]. Journal of Anhui Agricultural Sciences, 2010, 38(10):405–406, 440. (in Chinese).
- [9] LIANG JX, GUO P. Empirical analysis on the efficiency of rural financial service in Heilongjiang Province[J]. Science-Technology and Management, 2010, 12(1):11–15. (in Chinese).
- [10] DENG L, WANG YP. Supervision of foreign banks with the opening of rural financial market[J]. Journal of Anhui Agricultural Sciences, 2009, 37(15):408–410. (in Chinese).
- [11] MIN ZT, YAN ZX. An empirical study on China's rural financial organization's market performance[J]. Statistics & Information Forum, 2008, 23(12):20–26. (in Chinese).
- [12] SUN CX, ZHONG JQ. Study on the reform direction of China's rural credit cooperatives[J]. Journal of Anhui Agricultural Sciences, 2009, 37(25):414–417. (in Chinese).
- [13] GU HB, ZHOU ZQ. The analysis of the supplies of the rural finance system and its efficiency[J]. China Economist, 2007(8):54–56. (in Chinese).
- [14] ZHANG XT, LUO JC. Empirical research on rural finance supporting agricultural development[J]. Journal of Anhui Agricultural Sciences, 2009, 37(28):446–448. (in Chinese).

- [2] LU DD, XUE FX. China's regional development report—1997[M]. Beijing: The Commercial Press, 1998. (in Chinese).
- [3] LI XJ, QIAO JJ. County level economic disparities of China in the 1990s[J]. Acta Geographica Sinica, 2001, 56(2):136–145. (in Chinese).
- [4] OU XJ, SHEN ZP, ZHU CG. Spatial analysis of evolvement of regional economic inequality in Jiangsu Province[J]. Economic Geography, 2007, 27(1):78–83. (in Chinese).
- [5] LU F, XU JH. Study on the decomposition of the regional economic inequalities in China based on different regional division systems[J]. An Geography, 2006, 88(2):77–81. (in Chinese).
- [6] JIANG GF, LIU CY. Study on the spatial difference of county economic in Henan Province[J]. Economic Geography, 2008, 28(4):636–639. (in Chinese).
- [7] National Bureau of Statistics of China. Yunnan yearbook[M]. Beijing: China Statistics Press, 1978–2007. (in Chinese).
- [8] Statistical Bureau of Yunnan Province. Yunnan statistical yearbook[M]. Beijing: China Statistics Press, 1978–2007. (in Chinese).
- [9] LONG GY, NG MK. The political economy of intra-provincial disparities in post-reform China: a case study of Jiangsu Province[J]. Geoforum, 2001, 32:215–234.
- [10] DING SB, WANG RC, LI XM, *et al.* Regional economics[M]. Beijing: Higher Education Press, 2003: 136–137. (in Chinese).