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Mechanism Research on Standardized Development of Rural Private Finance

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Abstract In generalizing the researching conditions of researchers on private finance, the paper introduces the connoted meaning of rural private finance broadly and narrowly. The paper states the forms of rural private finance (including private loaning, private bank, rural private collecting, financing organizations, cooperatives, NGO, small loaning organizations and so on), the relations between rural private finance and rural economic relations, pointing out that it is the combination of the strong and the weak, which may generate benefits with the operation of marketing mechanisms. The paper analyzes the historical causes, supervision causes and cultural causes of rural private finance, discussing mechanisms of standardized development of rural private finance: firstly, standardize the organization management mechanisms, including scaled controlling mechanisms and bank management mechanisms; secondly, complete finance supervision mechanisms; thirdly, moderate government intervention, including affording liberal policy environment and reducing the improper intervention; fourthly, upgrading qualities mechanisms, including cultivating the rural credit culture and improving the quality of regulatory personnel.

Key words Rural private finance, Rural economy, Financial supervision, Standardized development, China

At present, the solution to the Three Issues depends on the reform of rural financial systems^[1], while which has a close relation to the rural financial operation. The scale of rural private finance has covered one third in the rural finance, being an indispensable part in rural finance. The rural private finance functions as an important supporting force which keeps a steady increase when the supply of the rural economy is insufficient under the official finance systems. There are researches now paying more attention on the functions, status and scales of the rural private finance. The paper, starting from a fresh viewpoint, analyzes the causes of the irregular development of rural private finance, learning from foreign experiences and lessons of development, positively exploring and discovering the operation mechanisms of rural private financial systems. Under the premise of following the economic and financial principals, the paper expects to make the rural private finance become the reasonable and legal component of rural financial systems, accelerating the standardized development of rural financial development and finally realizing the harmonious development of rural economy and finance, breaking the bottleneck of binary pattern and realizing the urban and rural economic integration.

1 The theoretical hypothesis of rural private finance

1.1 The meaning of rural private finance

Researches on

Received: July 24, 2010 Accepted: August 5, 2010
Supported by National Social Science Fund (09CJY056); Philosophy and Social Fund Project in Chongqing (2008-*jj*99); Rural Economy and Management Research Center Funded Projects (0510); Basic Research Projects of Southwest University of Central Universities (SWU0909604).

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private finance in China are at a long time forbidden and in constraint state. Now in academic circle, the definition of private finance has not been unified. Jiang Xuchao in his researches states that the private finance is the capital flowing forms of all the non-public capital of the private economy^[2]. Zhang Jun thinks that the private finance is the loaning activities of the informal financial department which are spontaneous^[3]. Zhang Jie classifies all the informal financial departments into the rural private finance, such as all kinds of commercial banks served to agriculture, cooperation banks and other local departments and so on^[4]. In academic works and theories, the private finance is usually called grassroots finance, underground finance, informal finance, gray-black finance and finance outside the systems. All of the concepts reflect to some degree a certain superficial features of the private finance, while their contents and extension are different from each other. The rural private finance can be classified into broad meaning and narrow meaning. In a broad view, the rural private finance refers to the sum of all the financial organizations and activities which are non-public in rural areas; in a narrow view, it refers to the sum of the financial organizations and forms which have not yet registered and included in the supervision of Bank of China. During the transfer of China, it is appropriate to define the private finance in a narrow way. The growing background of the rural private finance is the rural economic environment, the serving objects are peasants and rural industries. Therefore the private finance is characterized with individualization, such as nature, region, flexibility and low cost.

1.2 Forms of rural private finance Among kinds of forms of the rural private finance, there is rebirth of traditional financial forms, but other new creative organizations, including mainly private loans, cooperatives, personal banks, private

collecting and investing organizations and NGO small scaled loans, which are the most primary and original rural private finance forms; cooperatives, those co-operative credit organizations which are organized by the officials, are not financial organizations. Agents are those people who function as the intermediates between borrowers and loaners, gaining interests from tips; personal banks are the native financial organizations, which could be viewed as the revival of old financial organizations. The personal banks are indirect investing organizations and rural private financial organizations which are more organized and standardized than the agents; the rural private collecting organizations are those direct collecting ways and activities of remaining capital with production as the aim based on willingness. The cooperative financial organizations are those aiding economic organizations villagers spontaneously built which are not certain in name, including savings, aiding organizations and foundations, aiming at aiding natural disasters and having to some degree insurance nature. NGO small scaled loaning organizations are non-governmental organizations affording capital supporting to famers or peasants and a few town industries specifically or non-specifically. Other financial organizations are pawn shops, real credit, linked companies, Call Loan Company and internal finance companies.

1.3 Relations between rural private finance and rural economy Relations between rural private finance and rural economy are firstly the reactions of finance and economy in rural areas which are compliant with the normal economic and financial principals. On the other hand, they are different from the financial economic relations generously, which are the subordinate relations when the official finance is insufficient in affording helps in capital. This kind of subordinate relation is represented as an independent and interactive relation. The development of rural private finance affords capital aid to the development of rural economy which depends on the rural private financial organizations when the official financial organizations are insufficient seriously in capital. At the same time, the development of rural economy contributes the development of the rural private finance; the development of rural economy brings the adjustment of rural industrial structures which requires an increase of capital supply and adjustment of structures. The capital requirement in rural economy development firstly asks for the cooperation of rural official finance. While under the guidance of market mechanisms and policies, the official finance and city finance are more friendly. Therefore, when the official finance cannot meet the needs of the rural financial market, the rural finance develops at a rapid speed with the pull force of rural economy. The rural finance and rural economy are both weak groups, they live dependently and benefits at the same time under the market mechanisms.

2 The causes of the irregular development of rural private finance

The management of rural private finance is characterized with flexibility and low cost which is different from official finance. While Wang Guibin finds out in his research that when

the rural private finance developed to a certain degree, the irregular policies, organizations and operations in the rural private finance development would be appeared, the direct causes resulting in withdraw of rural private finance from markets^[5].

2.1 Historical causes The traditional capital operation is the historical causes of irregular development of rural private finance. Firstly, the rural private finance is chiefly the family group. Since from the 11th century BC, about 3 000 years, the rural private finance in China had not broken the bottleneck of family group. It has always been in the relation of blood, region and business, applying Parents Management^[6], without realizing the alteration and change of rural private finance. With the development of modern economy and technology, the rural production, living condition at present are greatly different from that of feudal society and semi-feudal society in essence. However, people are always apt to follow the traditional customs which result in a condition that usually the external conditions are changed, and the internal reforms have not kept up with. Secondly, the government manages the rural private loans by force. At the very beginning, the officials restrict and marginalize the generation and development of the rural private finance, having the problem of roles certification. The official dominated ideas have formed for a long time. In the past, the management of the rural private finance is mandatory measures which have also adopted by the present government. In the management of present private finance, the government feature is strongly manifested.

2.2 Supervision causes The lack of rural private finance supervisor is the main cause of irregular development of rural private finance. The rural private finance has not yet been absorbed in the supervision systems. The rural private finance with zero supervision is strong in management awareness; the small scaled private financial organization manages well, while it is weak in risk awareness. Driven by the interests, too much attention are put on the scale which is out of control, and without the supervisor, the risks increase sharply and finally withdraw from markets with bankruptcy, leaving a series of social problems, such as cooperation collapse and bank bankruptcy. Some people see that the rural private finance is superior to the official financial institution because of its flexibility and low cost. If supervising on it, the management cost would increase and the original advantages would lost. Therefore, it is the market mechanism that decides its entering and withdrawing operation and bankruptcy, with less management. Wang Guibin views that the definite supervision laws on the rural private finance as the legal identification of the rural private finance which can directly reduce the policy risks and costs of rural private finance^[7]. It is necessary, urgent and indispensable to have a supervisor on the rural financial activities, especially the supervision on the rural areas.

2.3 Cultural causes The low level of peasants' education is the important reason of irregular development of rural private finance, such as low quality, obviously psychological conformity and weak legal awareness and so on. Indexes usually used to measure the peasants' quality are education quality indicators

and scientific quality indicators. Xin Xian points out that peasants' education quality index in our country in 2003 is 0.49, the scientific quality index is 0.25; in 2004, in the civilization constitution of rural residents, the illiteracy rate is 9.56%, primary education covering 34.49%, the junior education 44.99%, the senior and secondary vocational 10.61%, and the college 0.37%. While at the same time, the indexes all over the country are respectively 9.16%, 32.38%, 39.29%, 13.40% and 0.57%^[8]. The peasants' conformity is the brand mark of small scaled production in peasant ideology, which makes the peasants' activities and behaviors look like the reactions of typical sheep groups. Once there are people, who conduct illegal fund-raising to gain high profits and high interests loans, joining lifting, there are more and more people join in and imitate. People are blind to laws and unaware of resistance to laws. Illegal solutions to disputes appear universally in rural areas.

3 Standardized development mechanisms of rural private finance

3.1 Standardizing the organization management mechanisms

3.1.1 Scale controlling mechanisms. The rural private finance is managed in small scale. Because of abundant information, small amount of loans and gradually complete steps, the rural private finance is usually managed well. When the scale enlarges, the objectives become more and more, the loaning amount increases, while the management mechanisms are backwards which result in directly the confusion of rural private finance and increased potential risks. Therefore, the inner management mechanism is firstly the scale controlling mechanisms of rural private financial development. To those financial organizations and institutions which are weak in capital, aiming at aiding in capital, during the management the loan scale should be controlled, policies should be manufactured. The amount of loaning should be measured, and at the same time the whole scale of loaning should be controlled.

3.1.2 Operation management mechanism like banks. to those rural private organizations which have some certain scale, in the management duration, the loaning mechanisms, the account management mechanisms, auditing mechanisms, risk defending mechanisms and inner controlling mechanisms of commercial banks should be adopted. These rural private financial organizations are the transient forms from rural private organizations to banks. The realization of the change requires the primary mechanisms. Besides the external mechanisms supplying to the main body, such as the market entrance by the government, withdraw mechanisms, market chance mechanisms and financial supervision mechanisms, there needs in the inner management the operation modes of commercial banks to realize the scientific and steady management.

3.2 Perfecting the financial supervision mechanisms Manipulate operational and distinguished supervision management mechanisms and modes according to the rural private financial supervision policies. And the differentiated supervision is classi-

fied into 2 steps. The first is to classify the objectives of the supervision. Classify the present existed financial activities in rural areas in 4 types. The first is the illegal financial activities, such as governmental and institutional apportion funds, illegal fund raising, high interests loans and lifting; the second is the small amount loans, such as private institution, commercial banks, silver back, pawn shops, NGO which use private rights; the third is the cooperatives using members capital; the fourth the organizations absorbing public deposits, such as private banks, rural cooperatives and personal banks. The second is to adopt different policies according to different types. To those the first rural financial activities, making use of Criminal Law, the non-financial laws to punish the related personnel by government and Judiciary; to the secondary, non-cautious regulatory strategies are adopted, regulating the operation behaviors through normal rules. The realization of real supervision is completed through the self-constraint by the rural private organization; to the third types, the cooperatives, because of its born possibility of bankruptcy, the combination of non-cautious regulation and judicial regulations are adopted; the fourth is manipulated by the cautious regulatory policies, strict and procedural cautious regulatory policies would be adopted.

3.3 Moderate government intervention mechanisms The revival of the rural private finance is the result of inductive financial policies alteration. Especially after the withdrawing of official finance from rural areas, the consensus on the reasonable features of rural private financial systems and the economic appearance of the main supplier. In a rather long term, government dominated economy is the situation in our country. If there is no agreement of the government and the transfer of government, the development of rural finance would be not guaranteed.

3.3.1 Creating liberal policy environment. The financial business dealt by the rural private financial organizations and institutions is usually the one which is not accepted by the official finance because of its cost causes or unwilling to deal with. However, this kind of business is required urgently by the rural industries and peasants. The government must pay more attention to it, affording a rather liberal policy environment to the rural financial organizations, without constricting or replacing it. Firstly, afford liberal investment environment. Investment and financing in rural financial markets is the operation results of marketing principles. Government should not define it whether it is legal or illegal with inadequate legal conditions. What should the government do is to adopt the general rules of never conviction, allowing its free existence of multiple ratio and investment channels. Secondly, afford liberal management environment. After the legalization of rural finance, in theory only the judiciary and financial department have the regulatory rights to management the rural financial organizations, so there is no need to establish special management parts. What should do specially is that management of the rural finance should not have the county government as the support, preventing the possibility of intervention generation.

3.3.2 Reducing inappropriate intervention. The inappropriate

intervention of government on the rural finance generates soft budget constraint, resulting capital bankruptcy. After the legalization of rural finance, government should center on affording services to the standardized development of financial organizations and allow the liberal development of finance in legal reach. Once restricting investment directly or indirectly, the intervention like the one on the cooperatives would appear again. In order to reduce the inappropriate intervention on the rural finance, the government must not share the stocks of rural financial organizations no matter directly or indirectly, especially true in small amount of loans. Forbid any governments or government officials take part in the stocks of rural finance in forms of laws and regulations, cannot attend the management of rural finance as the shareholders or cooperation directly or indirectly to keep the authentic features.

3.4 Mechanisms of quality improvement

3.4.1 Fostering the rural credit culture. Through reshaping the rural culture, accelerate the development of cultural psychology and customs and reconstruct the values and credit of peasants, affording cultural background to the quality improvement, the development of rural economy and the deepening of rural finance; perfect rural education systems, ensuring that all rural children are able to accept normal education at primary and junior stages according to the policy of universal access to nine-year compulsory education, sweeping away the young illiteracy; while improving the quality of rural education, peasants' training course should be done as well, highlighting the scientific and comprehensive qualities; strengthening the legal education and organizing the law universalization staffs to make peasants know the dangers of illegal fund raising and lifting.

3.4.2 Improving the quality of regulators. The scattered families and town industries are the main objectives of rural financial organizations, which decide the features of the business, such as small scale, high management cost and high risks. The regulators should know clearly the differences and specialty of the regulated objectives. The management of rural finance requires not only the regulators to have a good knowledge of regulating policies and chapters, but also know the general operation rules of rural finance. Therefore, in order to improve the quality of regulators, 3 points should be taken into consideration. The first is to study. Through regular training and tests may keep

regulators know clearly about regulatory policies and foster the regulator's ability of using laws appropriately. The second is cautious regulations. Distract some to take part in rural financial regulations specially which may upgrade the identifying ability of regulations on objectives. The third is to follow the rural financial activities. Because the rural finance is in the process of policy alteration, the management is in a negative state, the regulators should know the dynamisms of financial activities at any time to realize the synchronization regulations, preventing the happening of disadvantageous situation that dealing with after problem manifestation and happening.

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and determination of the development items of the organizations should be given priority to. Furthermore, the government should provide the preferential policies of taxation. The economic benefits of rural cooperative economic organizations are low, in the initial stage in particular, so the government should reduce or eliminate the taxes in a certain period. The income tax of the income gotten from technological services in the whole process of production and labor services should be eliminated; the value-added tax of selling agricultural products produced by the organizations should be cancelled, and the business tax of the agricultural production and operation will be can-

celled, which are helpful for the lasting, stable and sustainable development of rural cooperative economic organizations.

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