Cause Analysis of "Non-agricultural Trend" of Credit Cooperatives and Reversion Approaches

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Abstract  "Non-agricultural trend" of credit cooperatives is demonstrated as outflow of substantial contribution, application of credit fund in "non-agricultural sectors" and downsizing outlets. As a result, rural financial exclusion and insufficient effective supply of rural finance have been aggravated, and most rural households have been excluded from the service range of credit cooperatives. Major causes for such a trend were summarized as: (a) a profit-driven nature of credit cooperatives; (b) a conditionality of "agriculture, rural area and peasant" economy; (c) influence of macro-environment. It is proposed that credit cooperatives would only revert their focus to "agriculture, rural area and peasant" economy only if rural financial exclusion and economic restrictions on the development of credit cooperatives were removed, and the macro-environment was optimized.

Key words  Credit cooperative, "Agriculture, rural area and peasant" economy, "Non-agricultural trend", Reversion

1. Manifestations of "non-agricultural trend" of credit cooperatives

Rural finance is the core of modern rural economy. There are three representative opinions on the relationship between rural finance and rural economy in domestic academic circle; (a) rural financial development promotes the sustainable growth of rural economy; (b) rural financial development has obvious negative effect on peasants' income increase; (c) there is no equilibrium relationship between rural finance and rural economy.

Credit cooperative is the main force of Chinese rural economy, but its "non-agricultural trend" aggravates rural financial exclusion, contributes to the insufficient effective supply of rural finance, restricts development of rural economy, and results in the vicious mutual restriction of credit cooperative and rural economy. Therefore, it is significant for deepening reform of credit cooperatives, eliminating rural financial exclusion and realizing the coordinated development of credit cooperatives and "agriculture, rural area and peasant" economy to further analyze "non-agricultural trend" of credit cooperatives and its hazards, give suggestions to revert the focus of credit cooperatives to "agriculture, rural area and peasant" economy.

1.1 Manifestations of "non-agricultural trend" of credit cooperatives

The four major state-owned banks have withdrawn from county economy since 1998, and credit cooperative has been pushed to the most significant position of rural finance, and has had to take on the responsibilities of serving "agriculture, rural area and peasant" economy. However, in the market-oriented reform of Chinese economy, credit cooperative has deviated from the development path of "agriculture, rural area and peasant" economy. On the one hand, outflow of substantial contribution via credit cooperatives has aggravated "anemia" of rural funds. On the other hand, credit funds have been applied more and more in non-agricultural sectors, and credit cooperative outlets have been withdrawn from rural areas. As a result, rural financial exclusion and insufficient effective supply of rural finance have been aggravated, credit cooperatives' functions of serving "agriculture, rural area and peasant" economy have been weakened, and development of "agriculture, rural area and peasant" economy has been limited.

In view of the weakness, high risk and low profit of "agriculture, rural area and peasant" economy, credit cooperatives prefer township enterprises and individual businesses with high profitability in rural areas for the sake of fund safety and profit, even some credit cooperatives in central and west China offer loans to east China with developed economy, and it is difficult for ordinary rural households getting loans from credit cooperatives. Superficially, credit cooperatives have offered loans to rural areas, but only to non-agricultural sectors, not to the "agriculture, rural area and peasant" economy.

In addition, small-scale credit cooperatives with poor profit and more safety hazards have been withdrawn, merged and downs-
Major causes of "non-agricultural trend" of credit cooperatives

1.2 Consequences of "non-agricultural trend" of credit cooperatives

Outflow of substantial rural funds, "non-agricultural trend" of rural credit funds and shrinkage of credit cooperative outlets have resulted in "aggravated rural financial exclusion and insufficient effective supply of rural finance" and "most rural households are excluded from the financial service range of credit cooperatives". Therefore, credit cooperatives have not fully developed their financial functions of serving rural economy, but reduced financial support to "agriculture, rural area and peasant" economy via fiscal channel and financial channel, and contributed to the huge gap between standard rural financial supply and demand. Credit cooperatives offer loans only to 20% of rural households, and the other 80% relies on non-standard finance.

Specifically, outflow of capitals leads to "anemia" of rural fund, so capital needs of "agriculture, rural area and peasant" economy cannot be satisfied; "non-agricultural trend" of credit cooperative loans offers insufficient support to the development of "agriculture, rural area and peasant" economy; downsizing of credit cooperative outlets and their increasing distance from rural areas reduce geographical availability of financial services for "agriculture, rural area and peasant" economy and increase the cost. Loan proportion of peasants in credit cooperatives showed a declining trend between 1995 and 1999, and more than 70% of the peasants got funds via non-governmental finance. "Non-agricultural trend" of credit cooperatives restricts the development of rural economy, because the latter has no sufficient financial support or adequate financial services. In this sense, development of standard rural finance is far away from satisfying needs of rural economic growth. Furthermore, rural financial development has obvious negative effect on peasants’ income increase. In turn, hysteretic nature of rural economic development restricts the development of credit cooperatives, and results in the vicious mutual restriction of credit cooperatives and "agriculture, rural area and peasant" economy.

2 Major causes of "non-agricultural trend" of credit cooperatives

2.1 Profit-driven nature of credit cooperatives

System alienation of credit cooperatives, heavy burdens left by history and profit-driven nature of capital contribute to the profit-driven nature of credit cooperatives, and also the "non-agricultural trend" of credit cooperatives. System alienation has pushed credit cooperatives away from the original gist of serving "agriculture, rural area and peasant" economy. In terms of nature, credit cooperative is a community financial agency for mutual help and cooperation consisting of rural households, individual businesses and middle- and small-sized enterprises in a certain administrative region, and its gist is to serve "agriculture, rural area and peasant" economy. However, credit cooperative has taken the road of system alienation, its cooperative nature has been reduced, and even loans have been "controlled by some insiders", so the non-profit nature of credit cooperative has changed, "commercialization" and "non-agricultural trend" has been aggravated.

Heavy burden left by history restricts credit cooperative’s functions of serving "agriculture, rural area and peasant" economy. Long-term intervention from local governments, operation errors of credit cooperatives, loss caused by bad debts and inflation-proof bank savings when credit cooperatives were separated from agricultural banks, and inflation contribute to the heavy burdens of credit cooperatives. According to the statistics of China Banking Regulatory Commission in 2003, non-performing loan ceiling of credit cooperatives achieved 514.7 billion yuan, accounting for 37% of the national total; loss on account over the years achieved 131.3 billion yuan; there were 19 542 credit cooperatives with accounting insolvency, accounting for 54.98% of the total; capital adequacy ratio was only 2.35% which was much lower than the normal standard (8%). Since the new round of pilot reform of credit cooperatives was launched, the Central Bank of China has issued 170 billion yuan bills to replace non-performing assets, and help credit cooperatives to digest burdens. By the end of March 2009, the Central Bank of China cashed 156.9 billion yuan bills for credit cooperatives, but there were still 590 billion yuan bad debts. Under these circumstances, credit cooperatives were incapable of offering sufficient loans for the development of "agriculture, rural area and peasant" economy. Because of the heavy burdens, credit cooperatives prefer issuing loans to non-agricultural industries with higher profits and lower risks and even urban districts.

"Non-agricultural trend" of credit cooperatives is the inevitable fruit of profit-driven capital. In market economy, credit cooperatives as financial agencies pursue the maximum profits because it is the essential need of capital. Due to the system alienation of credit cooperatives, political objectives have to give up the seat to operative objectives if there are conflicts between them. Low comparative benefits and high risk of "agriculture, rural area and peasant" economy determines the "non-agricultural trend" of credit cooperatives as the inevitable choice of optimizing the profits.

2.2 Conditionality of "agriculture, rural area and peasant" economy

Economy determines finance, specifically, economic aggregate determines financial aggregate, economic structure determines financial structure, because needs of the real economy is the driving force of evolution of financial structure. From this per-
spective, "non-agricultural trend" of credit cooperatives is basically determined by restrictions of "agriculture, rural area and peasant" economy.

On the one hand, development of "agriculture, rural area and peasant" economy has long lagged behind industrial economy and urban economy, so it needs no higher amount of currency in circulation, "agriculture, rural area and peasant" economy also has no higher effective demand on rural finance, and further restricts development of credit cooperatives.

On the other hand, poverty of peasants also limits development of credit cooperatives. In 1978, per capita net income of rural resident is 133.6 yuan, per capita disposable income of urban resident is 34.3 yuan, and income difference of urban-rural residents is 209.7 yuan. By 2010, per capita net income of rural resident is 5,919 yuan, per capita disposable income of urban resident is 19,109 yuan, and income difference of urban-rural residents is 13,190 yuan. The aggravated relative poverty of rural resident results in the low deposit rate of rural areas and "anemia" of rural funds. In 2003, deposit of rural residents (60% of total national population) accounts for only 20% or so of the total 10,000 billion yuan savings deposit. Therefore, development of credit cooperatives is faced with serious economic restrictions and incapable of meeting the credit fund need of rural economic development.

According to the above analysis, low profits and high risks of "agriculture, rural area and peasant" economy inhibit credit cooperatives’ credit input. Driven by the operative objectives of maximizing benefits, credit cooperatives prefer offering loans to non-agricultural departments and industries with higher returns and lower risks.

2.3 Influence of macro environment  From the historical perspective, highly centralized planned economic system, priority development of heavy industries and cities are institutional sources of the "non-agricultural trend" of credit cooperatives. From the realistic perspective, urban-rural dualistic structure and performance evaluation system of officials constitute the breeding ground of such a development trend of credit cooperatives.

Credit cooperative in China was basically formed in the early and middle 1950s, characterized by strong political responsibilities. It is a transitional economic form from individual economy to collective economy, and also a product of highly centralized planned economic system, priority development of heavy industries and cities. Consequently, credit cooperative becomes state-owned finance born in the economic system and serving the economic system; and also a financial system for mobilizing rural economic resources to support the construction of heavy industries and cities. The above analysis shows the institutional causes for outflow of rural funds. Surplus resources of rural areas and agriculture have been transferred to cities and industry via credit cooperatives, and agricultural development has long been held back for the shortage of funds. Relative to rural economy, credit cooperative is an alien product, and essentially, has the "non-agricultural trend". "China never has a standard cooperative finance". "In the last half century China has no ground for the cooperatives".[10]

The priority development of heavy industries and cities results in the "dualistic social structure", and such a structure surely leads to dualistic economic and financial structure. As a result, "agriculture, rural area and peasant" economy has become a factor for China accumulating capitals and pursuing strategic development objectives; economic and financial resources have been unequally distributed in rural and urban areas, urban financial expansion has been realized at the cost of rural financial repression.

For a long time, GDP has been a core index for performance evaluation of officials. The most significant influence factor of GDP is urban economic entity, the second most significant factor is rural non-agricultural enterprise and large-scale agricultural industrialization organization, and the third most significant factor is small-scale rural enterprise, the least is rural household. In this case, household economy and agricultural economy will be marginalized by local governments and officials; and the "non-agricultural trend" of credit cooperatives complies with behavior logic of local government.

Moreover, poor credit environment of rural areas and frequent malicious evasion of debts also restrict the enthusiasm of credit cooperatives for supporting rural areas.

3 Approaches for reverting credit cooperatives’ focus to "agriculture, rural area and peasant" economy

To revert credit cooperatives’ focus to "agriculture, rural area and peasant" economy, rural financial exclusion has to be eliminated, their functions of serving "agriculture, rural area and peasant" economy have to be enhanced, the development of "agriculture, rural area and peasant" economy has to be accelerated, economic restrictions on the development of "agriculture, rural area and peasant" economy have to be eliminated, and a favorable macro system environment for serving credit cooperatives has to be created.

3.1 Eliminating rural financial exclusion, enhancing credit cooperatives’ functions of serving "agriculture, rural area and peasant" economy  "Non-agricultural trend" of credit cooperatives enhances rural financial exclusion, and application of generalized financial preferential policies is an effective approach of eliminating rural financial exclusion. First, more credit cooperative outlets should be established to cover all rural areas, eliminating blind zone of rural financial services and improving geographical availability of rural finance. Second, petty loan transactions should be further broadened to satisfy the fund needs of more rural households. Third, substitution of collateral and innovation strategy should be implemented; social resources and organizational resources in rural areas can be capitalized as loan mortgage; local government provides guarantee funds for aid-agriculture loans; joint guarantee loan should be popularized to help rural households get loans easily.

The burdens hold credit cooperatives back from serving "agriculture, rural area and peasant" economy, and to eliminate these burdens, efforts of credit cooperatives, central government
and local governments are needed. On the part of central government, more policy support for credit cooperatives is necessary; on the part of local government, sufficient matching funds have to be prepared, and more efforts should be devoted in improving rural financial environment; on the part of credit cooperatives, credit cooperatives’ capacity of controlling and resisting against risks should be enhanced by deepening reform and improving operation and management. As soon as the burdens of credit cooperatives are eliminated, they will have sufficient funds and become stronger, and will better serve "agriculture, rural area and peasant" economy.

3.2 Enhancing the strength of "agriculture, rural area and peasant" economy, eliminating economic restrictions of credit cooperatives

By accelerating the development of "agriculture, rural area and peasant" economy and enhancing the strength of "agriculture, rural area and peasant" economy, rural financial needs can be broadened, and more opportunities will be provided for the development of credit cooperatives. The development of "agriculture, rural area and peasant" economy depends on three factors; policy, investment and technology.

"The policy of giving more, taking less and loosening control" should be further implemented, and agricultural policies should be consolidated and improved. Specifically, first, increasing direct subsidies, subsidies for growing superior grain cultivators and purchasing farm machinery and comprehensive agricultural means of production; second, implementing policies of the minimum purchase price of grains, and increasing the minimum purchase price moderately; third, inputting more to support poverty-stricken area; fourth, establishing and improving rural social security system as soon as possible; fifth, innovating land property rights system to ensure peasants to share incremental benefits of land.

More resources should be input in promoting "agriculture, rural area and peasant" economy, and the focus of national infrastructure construction and social undertakings’ development should be turned to rural areas. In this way, more job opportunities will be provided to rural residents, their income will increase, and the development foundation of "agriculture, rural area and peasant" economy will be enhanced.

Agricultural scientific and technological progress should be enhanced, scientific and technological advanced should be applied to promote agriculture. On the one hand, agricultural sci-tech programs should be supported, and agricultural sci-tech fruits innovated. On the other hand, grassroots promotion and service system of agricultural technology should be improved, and transformation of agricultural sci-tech fruits accelerated, agricultural industrialization promoted, benefits of agricultural production improved.

3.3 Improving macro-environment, escorting credit cooperatives to serve "agriculture, rural area and peasant" economy

Dualistic structure leads to the huge differences of basic public products and services in urban and rural areas, and also the hysteretic nature of "agriculture, rural area and peasant" economy, thus such a structure has to be broken to balance urban and rural development. First, increasing input in basic public products and services in rural areas lays a solid foundation for the development of "agriculture, rural area and peasant" economy; second, adopting financial generalized system of preferences, increasing effective supply of rural finance offer capital support for the development of "agriculture, rural area and peasant" economy; third, establishing an urban-rural social security system, improving peasants’ income.

Inadequate administrative intervention is the major cause for non-performing loan. Therefore, independence and autonomy of credit cooperatives should be maintained to reduce the risks brought by administrative intervention. In addition, credit loss of cadres should be prohibited, credit of enterprises improved, credit awareness of peasants cultivated, strong measures taken to avoid evasion of repayment of bank loans, so as to improve and purify rural credit environment.

Policy support is a basic experience of domestic and international rural cooperative financial development. The following measures could be taken to enhance the national policy support to credit cooperatives. First, supplementing the Central Bank bills and special loan amount to help credit cooperatives digest the burdens left by history; second, exempting business tax, income tax and relevant additional tax of credit cooperatives; third, accelerating the verification and cancellation of bad debts, improving asset quality of credit cooperatives; fourth, cashing subsidy of value-preserved savings of credit cooperatives, making up loss of credit cooperatives; fifth, reducing loan rate for "agriculture, rural area and peasant", making up loss of credit cooperatives with national fiscal subsidy; sixth, preparing special indemnity fund for risks of credit cooperatives, establishing the benefit compensation mechanism for making up loss of credit cooperatives in serving "agriculture, rural area and peasant", and raising enthusiasm of credit cooperatives for serving agriculture.

Outflow of rural funds should be restricted, rural fund recycling mechanism should be established, and the following measures can be taken to guide the recycling. First, reducing deposit reserve ratio or cancelling the deposit reserve ratio of credit cooperatives, so the deposit can be more used as aid-agriculture fund; second, increasing fiscal aid-agriculture fund, establishing the stable increase mechanism of fiscal aid-agriculture fund; third, introducing various agriculture-related funds and extra-budgetary funds to credit cooperatives; fourth, increasing deposit rate to enhance the competitiveness of credit cooperatives.

References


farmers' agricultural growing area is negative, indicating that in the case of other conditions remaining unchanged, the larger the growing area, the weaker the willingness to participate in the subsidy policy for purchase of plant protection machinery, which is contrary with the assumption put forth by us. The possible reason is that large growing households have been basically equipped with one or two types of machinery, which can meet the needs of daily production. For the farmers with a moderate level of growing area, they have a more urgent need for the upgrading of plant protection machinery. The subsidy policy can reduce the cost of the purchase of agricultural machinery, so the willingness to participate in policy is also higher.

5 Main conclusions and recommendations

Plant protection machinery subsidy policy plays a huge role in promoting replacement of plant protection machinery, and farmers' willingness to participate is not only a standard for measuring the effect of this policy, but also an important indicator for observing the ability of farmers to buy.

(1) Farmers are very willing to apply for subsidies for purchase of plant protection machinery, and under the existing policy arrangement, there are 69.4% of farmers willing to apply for the subsidies for purchase of plant protection machinery.

The government should increase the input of subsidy capital and expand farmers' benefiting scope. In addition, since the implementation of policies, government has tightened control on the quality of plant protection machinery included in subsidy list, so that the farmers entertaining wait-and-see attitude show great willingness to participate. There are also some farmers with relatively small acreage wanting to reduce acquisition costs and complete the update of the plant protection machinery by way of subsidies.

(2) Under the current policy, farmers' application will is affected by various factors. In the process of policy implementation, we should not only take full account of Fujian' geographical features and practical needs of the farmers, but also give full consideration to farmers' personal characteristics, household characteristics and production characteristics. Pure family farming income is a key factor affecting willingness to participate, and the demand of the plant protection machinery is constrained by income. Taking the case of Pucheng County, most of the local farmers use manual sprayers, and the prevention effect is poor, so they have a strong need for plant protection machinery, but ability to pay is not enough. On the basis of balance, we should increase support to major grain-producing areas, and improve the subsidy standard for plant protection machinery, to stabilize grain production.

(3) The level of participation is mainly dependent on the publicity of government and related institutions. The policy cognitive factor is not a significant factor that affects farmers' willingness to participate in the subsidy, but the government can play a more important role. The government should not only act as policy advocate, but also act as the builder of a platform, so that the manufacturers of plant protection machinery can communicate with farmers in this platform, and farmers can freely choose the machinery. The government should timely carry out promotion of plant protection machinery in the countryside or the use training of plant protection machinery, to make farmers change the traditional plant protection concepts, and use advanced and applicable plant protection machinery.

References


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